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Financial Analysis of P&G Company

Finanční analýza společnosti P&G

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2. Explanation of Financial Analysis Theory
3. Description of a Selected Company's Condition
4. Specific Analysis Results of the Company
5. Conclusion

Bibliography
List of Abbreviations
Declaration of Utilisation of Result from the Bachelor Thesis
List of Annexes
Annexes

References:

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The declaration

“I hereby declare that I have elaborated the entire thesis including annexes myself.

Ostrava date...29.4.2017

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Content

Chapter 1 Introduction

This bachelor thesis mainly describes the financial situation of Procter & Gamble Company. Procter & Gamble Company was established on October 31, 1837. Now it has become the largest multinational consumer goods company. As the leader of fast moving consumer goods industry, Procter & Gamble Company owns more than 200 brands products which are divided into four categories: Beauty, Baby, Feminine and Family Care, Fabric and Home Care and Health and Grooming. In 2014, Procter & Gamble Company announced to slim more than 100 their brands and focus on remaining 65 brands, which bring great changes to the company.

The aim of this bachelor thesis is to use the methods that we will describe in chapter 2, which are common-size, financial ratio and pyramidal decomposition, to make financial analysis of Procter & Gamble Company and to assess Procter & Gamble Company's operation.

We divided this bachelor thesis into five parts which are introduction, explanation of financial analysis theory, description of company's condition, specific analysis of company and conclusion.

In chapter 2, we explain the financial analysis theory and write the introduction of specific methods that will be used in chapter 4 in detail, which are common-size, financial ratio and pyramidal decomposition.

In chapter 3, we describe the condition of Procter & Gamble Company. From history, core strengths, company strategy, products and current situation these five aspects to introduce the fundamental state of Procter & Gamble Company.

In chapter 4, we use the methods mentioned in chapter 2 to analyze the specific financial condition of the Procter & Gamble Company. Similarly, this chapter is divided into three parts, which are common-size analysis, financial ratio analysis and pyramidal decomposition.

Last but not least, we summarized all the results in chapter 5.

Chapter 2 Explanation of Financial Analysis Theory

In this chapter, we explain the financial analysis theory and write the introduction of specific methods that will be used in chapter 4 in detail, which are common-size, financial ratio and pyramidal decomposition.

2.1 Overview of financial analysis

Financial analysis as it is defined is the process of evaluating businesses, projects, budgets and other finance-related entities to determine their performance and suitability. In simple words it is a process of selecting, evaluation and interpreting financial data. The aim is through analyzing the profitability, liquidity and solvency etc. to formulate the assessment of the company's present and future financial position and to judge whether it is worth a monetary investment.

According to the book we know that there are six steps in financial statement analysis. The first is establishing a purpose to what I real want to do. Because that if we don't have an objective, we may get low efficiency in the whole analysis process. The second step is data acquisition. The basis of analysis is data and we can't do a practical analysis without data. The third step is process the data. The data that we gathered are numerous, irregular and disordered, Hence we need to manage them into a well-organized way and choose the most useful data to make it easier for analysis. The fourth step is conducting the analysis. Then, developing recommendations when appropriate and to report it to related part. And last, review the whole analysis process to see whether it is correct. Every phase in this procedure is very significant and must be treated seriously.

Well, now that we need to use this method, we need data and it is essential to know the basic knowledge of this method. For the data sources there are three categories, which are financial data, market data and economic data. The most used is financial data but the other two are still important in financial analysis. Well, how can we get them? It is necessary to know about the financial statements. More in details, we need to know about the theoretical concepts of basic ratios.

2.1.1 Aim

As it is known to us all, financial analysis is an effective way to evaluate a public company for investors. Generally, there are three aims in financial analysis which are analysis of company's operation and profitability, analysis of company's short-term and long-term debt paying ability and analysis of market value.

Corresponding with these aims the methods that we mentioned previously are usually used. To begin with the analysis of market value, in which common-size analysis plays an important role. We discover the variation of a company's market value through analyzing terms in financial statements from horizontal and vertical aspects. This method makes it more intuitional to feel the change. In the next place, financial ratios analysis, especially the solvency ratio, makes an effect on the analysis of company's short-term and long-term debt paying ability. Through calculation and comparison we know concretely about the capacity. Last but not the least is the DuPont analysis which works in analysis of company's operation and profitability. Usually, through decomposing the return on assets to deeply analyze a company's operation performance. If the return on assets performed not as well as we think, we diagnose which part performed more negative by DuPont analysis.

However, these three methods are not very strictly corresponded with the three aims. Generally, they interact with each other. Hence we introduce these three methods to make financial analysis much more complete.

2.2 Financial statements

What are financial statements? Financial statements usually include balance sheets, income statements and cash flow statement. They are compiled in accordance with generally accepted accounting principles strictly and are audit by the government agencies, accountants, firms, etc.

2.2.1 The balance sheet

The balance sheet summarizes the assets, liabilities and stockholders' equity of a company in a given period. Well, the debt and equity are the way of financing for company.

Hence there is also another word that the balance sheet shows the assets of the company, the value of these assets and how these assets are financed. And in this case the balance sheet equation is that assets equal liabilities plus stockholders' equity. The assets are generated either by investing activities, operating activities or by financing activities.

Usually we classify the assets into two categories, which are long-term assets and current assets according to the time. As for the long-term assets, they are usually used by a company over a period over one year such as tangible assets, intangible assets and etc. when it comes to current assets, they are relatively short life such as accounts receivable, inventories and cash and cash equivalents.

As same as the assets we also classify the liabilities into two categories, which are current liabilities and long-term liabilities. However for equity there are three categories, which are common and preferred shares, paid-in capital and retain earnings. Both equity and liabilities are the capital for financing of company's assets.

The basic structure of the balance sheet is shown as Table 2.1.

Table 2.2: The balance sheet

Assets	**Liability + Equity**
Current assets	**Current liability**
Cash and cash equivalents	Interest payable
Marketable security	Dividend payable
Accounts receivable	**Long-term liability**
Inventory	Long-term debt
Long-term assets	Pension fund liability
Tangible assets	**Equity**
Intangible assets	Retain earnings

2.2.2 Income statements

The income statement provides the information of revenues, expenses, net income and earnings per share during a particular period that usually a year or a quarter of a year. According to this information we are able to assess a company's performance during this period. Moreover, we usually divided the income statement into two parts, which are operating parts and non-operating parts. The operating part contains the activities directly related to company's regular operations. Whereas the non-operating part not. The most common terms in the statement are net sales, operating income, earnings before interest and tax, net earnings and etc. The basic equation of the income statement is that revenues minus costs equal net income. The basic structure of the income statement is shown as Table 2. 3.

Table 2. 4 : The basic structure of the income statement

	DD/MM/YYYY
Net sales	65299
Operating income	13441
Earnings before interest and tax	13369
Net earnings	10604

2.2.3 Cash flow statement

The cash flow statement provides information about a company's cash inflow and outflow in a specific period usually a year. First the inflow is the amount of money received during a specific period. Then the outflow is the amount of the money spent during a specific period. The basic formulas are that net cash flow equals sum of inflows minus sum of outflows and cash at the end equals cash at the beginning plus or minus net cash flow.

What is worthy to mention is that the cash flow statement integrates the balance sheet and the income statement. Because of accounting convention, net income can fall out of alignment with cash flow. In these three statements there are three major activities, which are operating, investing and financing activities. Firstly in operating activities, cash flows made from regular business operations. Secondly in investing activities, the cash flows as a result of purchasing and selling of long-term assets. Lastly, financing activities include cash flows from obtaining and repaying equity and long-term debt.

The basic structure of the cash flow statement is shown as Table 2.5.

Table 2.6 : The basic structure of the cash flow statement

Cash flow statement	
Operating activities	15,435
Capital expenditures	-3,314
Proceeds from asset sales	432
Investing activities	-5,575
Dividends to shareholders	-7,436
Change in short-term debt	-418
Financing activities	-9,213
Effect of exchange rate changes on cash and cash equivalents	-381
Change in cash and cash equivalents	266

2.3 Financial statements analysis methods

In this section there are three kinds of methods which is common-size analysis, financial ratio analysis and pyramidal decompositions and influence quantification. And for the results evaluation there are four principles, which are results evolution over time, results comparison with competition or industry statistics, comparison of true results with plan and comparison with recommended values.

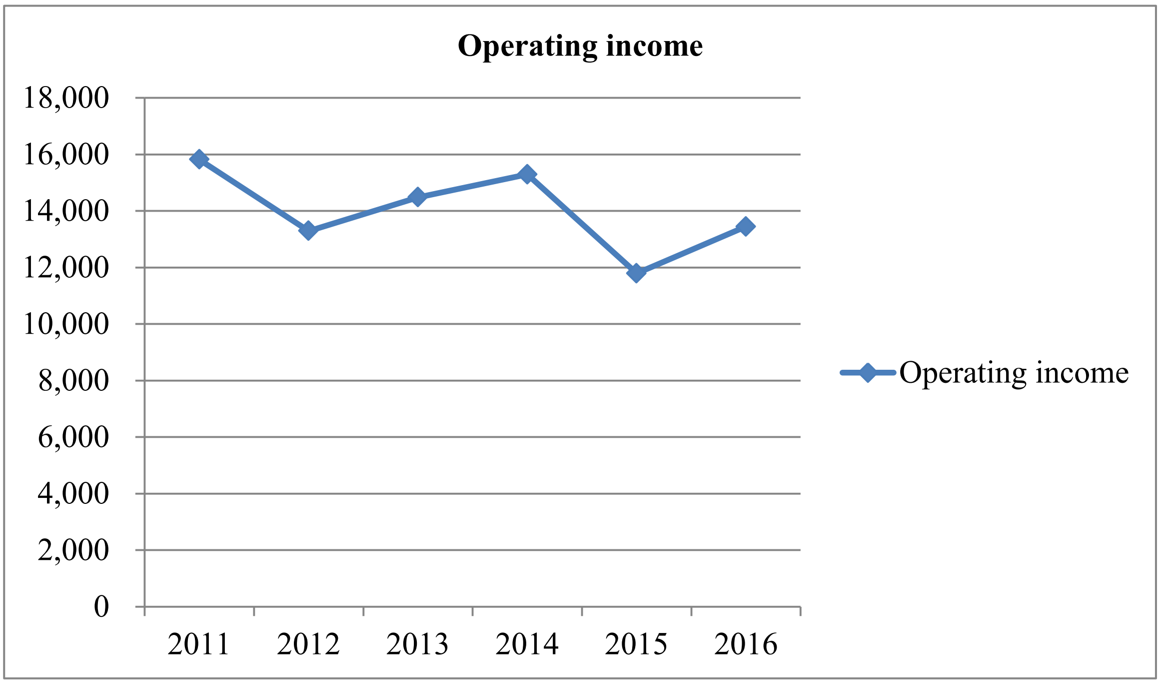
2.3.1 Common-size analysis

There are two methods in the common-size analysis, which are horizontal analysis and vertical analysis.

2.3.1.1 Horizontal analysis

Horizontal analysis also called trend analysis analyzes the evolution of the data in financial statements during a certain period. Investors or analyst use this method to appraise the growth of the company all around. As for the data, it can be a financial ratio, a benchmark and also a line item. For example, as it is shown in figure 2.1, if the operating income in company A is 16000 in January 1st, 2011 and is 13000 in January 1st, 2012. Hence the absolute change in operating income in company A is minus 3000 and the relative change is minus 18.75%. In this case, we know the company is experiencing a descending tendency in operating income from 2011 to 2012. And also we can analyze other terms in the similar way. Well, not only can we use it in checking our own company but we also can compare it with our rival. Then we may find where the problems or the deficiencies lies.

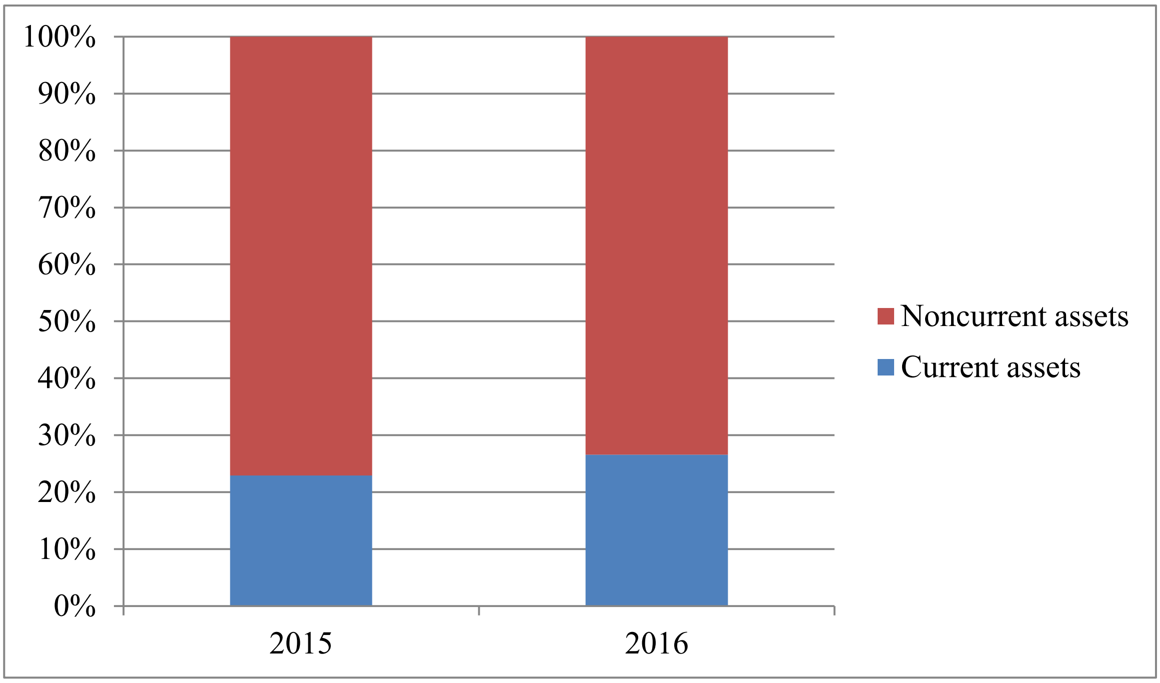
Figure 2.1: Horizontal analysis of operating income.



2.3.1.2 Vertical analysis

Vertical analysis is a method of analysis using proportion in the whole financial statement, which means line terms their proportion relative to one term. For instance, in the balance sheet current assets and long-term assets shows different percentage of the total assets. And in the income statement line items show the different percentage of net sales. Generally, the vertical analysis adapts in one time unit. Hence our can easily know discrepancy between line terms' proportion. However, it can also be adapted in several time units. Figure 2.2 shows a simple vertical analysis of the balance sheet. As it is shown in figure 2.2, we know the proportion of current asset is 22% and the non-current asset (long-term assets) is 78% in 2015. Well, in 2016 the proportion of the current assets changed into 27% and the non-current asset (long-term assets) changed into 73% which give rise to our attention.

Figure 2.2: A simple vertical analysis of assets.



2.3.2 Financial ratio analysis

Financial ratio analysis is a method that based on the comparison between the data of several significant line terms on the financial statement to analyze and evaluate a company's operations. Because of the difference between analysts' aims, the emphasis of the analysis will be different. In general, there are four ratios, which are profitability ratios, liquidity ratios, solvency ratios and asset management ratios.

2.3.2.1 Profitability ratio

Profitability ratio is one of the financial metrics which estimate the ability of a company to earn profit in a certain period. It indicates the state of operation of the company. Usually the higher the ratios, the more competitive the company is. Hence it is very important to both owners and investors.

There are four basic ratios under this term which are operating profit margin, net profit margin, return on assets and return on equity.

Operating profit margin. It shows how much profit the company has made having paid off all the operating costs relative to the total revenue. It reveals the company's ability to use assets and control costs. The operating income also called earnings before interests and taxes which equal the total revenue minus total operating costs such as costs of productions. And the higher operating profit margin indicates the higher profitability.

The formula is shown as the following.

$$OPM = \frac{EBIT}{REV} = \frac{OP}{REV}, \tag{2. 1}$$

where *OPM* is operating profit margin, *EBIT* is earnings before interests and taxes, *OP* is operating profit and *REV* is revenue.

Net profit margin. It is a ratio that the net profit of a company relative to the revenue. Different from the operating profit margin, it is indicated how much profit with paying off the interests and taxes the company has earned. It often shows as a percentage of the revenue. As it is called the net profit is the operating profit minus interests and taxes. Still the higher this ratio, the better ability the company owns.

The formula is shown as the following.

$$NPM = \frac{EAT}{REV}, \tag{2. 2}$$

where *NPM* is net profit margin, *EAT* is earning after tax and *REV* is revenue.

Return on assets. It shows the relationship between operating profits and total assets which indicates how efficiently the company uses the assets to earn profits. Still, the higher the ratio, the better the company is. Because the higher number means the company use less investment to gain higher return. In addition, different companies have different assets, Hence the return on assets is usually used in comparison between similar companies or across the time.

The formula is shown as the following.

$$ROA = \frac{EBIT}{A} = \frac{OP}{A}, \tag{2. 3}$$

where ROA is return on assets, A is assets.

Return on equity. Similar to the ROA, it is the net income relative to the shareholder's equity which shows how much profit the company can earn with the money that shareholders invested. Please notice that shareholder's equity does not include preferred shares. The net income is earning after tax but before common stocks dividends. Still, the return on equity is also used in comparison between similar companies or across the time as same as the return on assets. Usually the higher growth company has higher return on equity.

The formula is shown as the following.

$$ROE = \frac{EAT}{Equity}\ , \tag{2. 4}$$

where ROE is return on equity.

2.3.2.2 Liquidity ratios

Liquidity ratios are one of the financial ratios that evaluate the short-term debt paying ability of a company. Generally, there are three basic ratios under this category which are current ratio, quick ratio and cash ratios. The higher the ratio means the stronger debt paying ability. Though similar to other ratios the liquidity ratios can be used in both internal and external analysis, it is may not be as effective as its internal analysis when looking across the various industries. As a result of geographical locations and company size and different financing structure external analysis will be more difficult. In addition, even if the basic equitation is the same the analysts usually use diverse concrete calculation methods. For example, some analysts may use cash and cash equivalent divided by current liability because they think the cash and cash equivalent is the most liquid asset and it is the most useful asset in emergency. Moreover, because of its significance and its trait, analysts usually regard it as a criterion to judge whether a company can sustain their operation.

Current ratio. Current ratio is a method to gauge the ability of a company to pay off short-term debts and long-term debts which is current assets divided by current liabilities. It indicates the financial health condition of a company. Generally, the higher current ratio means healthier financial condition. Hence if the number of the current ratio is lower than 1, the company may in unhealthy conditions. Because the number is under 1, the assets of the company are less than liabilities, in which case the company may confront with liquidity problem. However, it is not necessary mean that the company will go bankrupt with the ratio under 1. For there are more than one method to finance, if the company really needs to cover the liability, they may borrow.

In addition, it is also not very good if the number is over 3. In this case, the company owns too much assets but doesn't use them in efficiency. Hence the best situation is in the range from 1 to 3.

The formula is shown as the following:

$$Current\ \ ratio\ = \frac{Current\ assets}{Current\ liabilities} \tag{2. 5}$$

Quick ratio. It is a metric that cope with the company's ability to pay off the short-term liabilities. Similar to the current it also indicates the company's liquidity position and still the higher ratio means better financial position. But differ from the current ratio; quick ratio is more conservative because it takes the inventory out of the current assets. For converting into cash immediately, the company has to lower the price of the inventories, which may cause the value loss.

The formula is shown as the following.

$$Quick\ ratio = \frac{current\ assets-inventories}{current\ liabilities}$$

$$= \frac{cash+marketable\ securities+accounts\ receivable}{current\ liabilities} \tag{2. 6}$$

Cash ratio. More conservative than the quick ratio, the cash ratio calculates the ability of the company to pay current liabilities only rely on the cash and cash equivalents. It is an indicator of liquidity position of the company.

The formula is shown as the following.

$$Cash\ ratio = \frac{cash+marketable\ securities}{current\ liabilities} \tag{2. 7}$$

2.3.2.3 Solvency (leverage) ratio

Solvency ratios are the ratio that judges the safety of enterprise liabilities and the ability to meet the debt and other obligations. The degree of the debt paying ability to a great extent reflects the risk of enterprise operation. It indicates that whether the cash flow of the company is sufficient to satisfy the short-term and long-term liabilities. The higher the number of the ratio, the less possibility the company will default.

Usually it is calculated as follow.

$$Solvency\ ratio = \frac{net\ income(or\ after-tax\ profit)+depreciation}{short-term\ liabilities+long-term\ liabilities} \tag{2. 8}$$

The solvency ratio is only one ratio that used to determine whether a company is still able to pay a debt.

It is worth mentioning that solvency ratio and liquidity ratio looks similar but has notable difference. The solvency ratio place emphasis on the company’s capacity to meet long-term obligations. Whereas the liquidity ratio pays more attention to ability to pay off the short-term obligations and convert the assets into cash as soon as possible. Company with high solvency surely has positive net worth; however company with high liquidity may not has positive net worth. Hence though these two ratios both indicate the state of financial health of a company, they place emphasis on different sides.

Usually there are three basic ratio under solvency ratios, which are debt ratio, debt-to-equity ratio and interest coverage.

Debt ratio. It is a measurement that how many assets are financed by the debt, which shows the leverage of a company. Usually, the higher the ratio, the more risky the company is. But it doesn't necessary means if one company's debt ratio is higher than that of another one the company is much more risky than the other one. Because vary from different industries the absolute value of the ratio means different condition of the company. Capital-intensive industry with stabled cash flows such as utilities may need more debt than other industry with volatile cash flows such as technology. In this case the capital-intensive industry often has higher debt than that of other industry. Hence to judge a company's risk level effectively we usually use more than one ratio. In conjunction with other metrics that indicate the health condition about a company we can get more accurate result.

The formula is shown as the following.

$$\textit{Debt ratio} = \frac{total\ debt}{total\ assets} \tag{2. 9}$$

Debt-to-equity ratio. Similar to the debt ratio, it is also a measurement that how many assets are financed by the debt, which shows the leverage of a company. And the higher the ratio, the more risky the company is. The number is relative to the shareholder's equity. It shows the extent that the company increase debt to finance money. If the debt-to-equity ratio is high, the company uses much debt in financing which indicates a high level of risk.

Company increase operations by using debt may get a lot of earning. If the earning is excess the debt cost (interest paid), both company and shareholders will gain plenty of value. However, if the financing cost ends up with excessing return the shareholders' benefit may get damaged. In this case, the company may go bankrupt. Hence keep rational proportion between debt and equity is very significant.

The formula is shown as the following.

$$\textit{Debt-to-equity} = \frac{total\ debt}{equity} \tag{2. 10}$$

Interest coverage ratio. It is the combination of debt ratio and profitability ratio to show difficult or easy degree of a company to pay off the interest paid. The ratio is calculated by dividing earnings before interests and taxes by interest paid during a certain period. The higher the ratio, the healthier the company is. Usually the ratio is about 2.5 which is a sign that the company must pay attention to it. And if the number is 1.5 or less, maybe there is no one is willing to lend money to the company because it has very high default risk. Moreover, if the number is under 1, it indicates that the earning of the company can meet the obligation to pay off the interest of the debt. And to meet this obligation the company must use their money reserve to remedy the deficit. But as time passes, the company will end up with going bankrupt.

The formula is shown as the following:

$$\text{Interest coverage} = \frac{EBIT}{Interest\ paid} = \frac{Operating\ profit}{Interest\ paid}, \tag{2. 11}$$

where *EBIT* is earning before interests and taxes.

2.3.2.4 Assets management (activity) ratios

Activity ratio is a measurement to evaluate the ability of a company to convert many kinds of accounts on the financial statements into sales. Usually, company translates the assets into sales as soon as possible, because the shorter the cycle, the higher the sales will be in a certain period. In this case two basic ratios are often used which are inventory turnover and total assets turnover. Activity ratio indicates the company's operational efficiency. For the different industries have a discrepancy in assets requirement, it is not suitable to compare it vary from different industries. For instance, it is unwise to compare the ratio between commercial stores and manufacturers with large producing equipment. Hence the most useful way is to compare the ratio with competitors or in the same industry.

There are four basic ratios which are average collection period, accounts receivable turnover, inventory turnover and total assets turnover.

Average collection period. The average collection is the time that a company can receive the money in the form of account receivable that other side committed to pay. It indicates the average days between day that make a deal and the day get the payment. Usually we use 360 as nearly one year. Generally, the lower average collection period is better than higher average collection period. Because it means the company can get the payment faster.

The formula is shown as the following.

$$ACP = \frac{Account\ receivable}{Revenues} * 360, \tag{2. 12}$$

where *ACP* is average collection period.

Account receivable turnover. It is a ratio that reflects on the turnover ratio of the account receivable, which indicates the average number of conversion between account receivable and cash during a certain period. Account receivable turnover is calculated by dividing revenues by accounts receivable during the same period that usually one year. A high account receivable turnover indicates that the company uses cash basis and has great efficiency in collecting credits. But this also shows that the company is too strict to extend credit which may lose potential customers. This ratio is always used across the time. Overlooking the trend the companies know how to make a change in their credit policy.

The formula is shown as the following.

$$ART = \frac{Revenue}{Accounts\ receivable}, \tag{2. 13}$$

where the *ART* is accounts receivable turnover.

Inventory turnover. It is how many times the inventory of a company is sold in a certain period. For greater accuracy analyst usually use the costs of goods sold divided by average inventory. And the average inventory equals sum of beginning inventory and ending inventory divided by 2.

The formula is shown as the following.

$$IT = \frac{Costs\ of\ goods\ sold}{Average\ inventory}, \tag{2. 14}$$

where *IT* is inventory turnover.

Total assets turnover. It is a ratio of the value of a company's revenue relative to the total assets, which indicates the efficiency that the company use assets to generate the revenue. Generally speaking, the higher ratio means the better performance of the company for per unit asset generate much revenue. It is worth a mentioning that only the comparison between different companies in the same industry makes sense.

The formula is shown as the following.

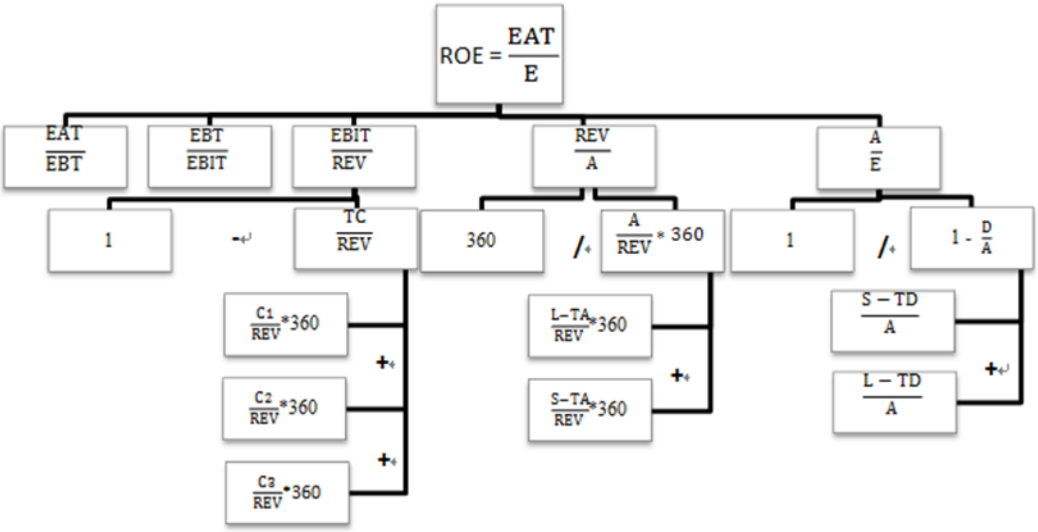
$$TAT = \frac{Revenues}{Total\ assets}, \tag{2. 15}$$

where *TAT* is total assets turnover.

2.3.3 Pyramidal decompositions

Pyramidal decompositions also called DuPont Identity utilize the relationship of several major financial ratios to analyze the financial position of the enterprise synthetically. It is a method that used to evaluate the company profitability and shareholders' equity returns level and Enterprise performance from a financial perspective. Put a ratio into the form of Multiplication of several ratios to figure out how specific factors affect the company performance. The figure 2.3 is a DuPont analysis of *ROE* (return on equity)

Figure 2.3: DuPont analysis of *ROE* (return on equity)



Where D is debt, C is cost, L-TA is long-term assets, S-TA is short-term assets, S-TD is short-term debt and L-TD is long-term debt.

Chapter 3 Description of a Selected Company's Condition

In this chapter, we describe the condition of Procter & Gamble Company. From history, core strengths, company strategy, products and current situation these five aspects to introduce the fundamental state of Procter & Gamble Company.

3.1 History of Procter & Gamble Company

The predecessor of Procter & Gamble Company is a cooperation of a candle maker William Procter and a soap maker James Gamble. Their wife's father persuaded them to make a business together. Hence as a result of the persuasion Procter & Gamble Company was established on October 31, 1837. After 20 years, the sales of the company had reached $ 1 million.

It is very significant to innovate constantly for the development of a company. Procter & Gamble Company has a deep understanding of this and they never stop their steps on the way of innovation. In 1841, Procter & Gamble Company got their first patent, which is an apparatus that molds candles. In 1879, they introduced Ivory soap which became company's best-selling product quickly, etc. Procter & gamble still keeps constant innovation to this day.

In addition, Procter & Gamble Company is also a pioneer in advertising marketing. In 1838, Procter & Gamble Company first ventured to print their advertisement on newspaper during the age of the newspaper came the evolution of print advertising. And in 1920s to 1930s, company sponsored many radio programs to market their product, as a result of which these shows became commonly known as "soap operas".

Nevertheless, the development of a company in addition to rely on their own efforts, also need opportunities. During the American Civil War, because the price of raw material was raising many soap producers couldn't supply soap stable. However, Procter & Gamble Company bought quantities of materials before the war hence only they can supply soaps as usual. In this case, the company was awarded many contracts to supply the Union Army with soap and candles, which gained considerable fame.

In 1880s, a mania of the labor movement broke out. In order to head off a strike, the company began to carry out a profit-sharing program by giving the workers a stake in 1887. Then the company came into public and listed on the New York Stock Exchange in 1890. Since then, Procter & Gamble Company completed a major transformation.

Well, the development of a company cannot do without scale expansion. And in this term, acquisition is a quite fast and good way to realize it. Through acquisition the company set up amounts of subsidiaries all over the world and in the meanwhile enlarged the diversity of their products. Now it has become the largest multinational consumer goods company.

3.2 Core strengths of company

To gain Broad market, Procter & Gamble Company gain remarkable achievement in six core strengths: Consumer Understanding, Innovation, Branding, Go-to-Market Capabilities, Scale and Productivity.

3.2.1 Consumer understanding

As a business company, it is very important to understand our consumers to enlarge the sales scale. In this situation, Procter & Gamble Company conducts thousands of research to figure out what customers need and what customers want. According to the result, the company not only gets easier to make more innovations, but can also build good relationship with their customer. What is more, it helps company gain more new customers which is beneficial to business performance.

3.2.2 Innovation

Recognized as one of the most prolific innovators in the world, Procter & Gamble Company never stops it since it was founded. However, to our surprise the company rarely works alone. They have at least one major component from an external partner in more than half of their product innovations. Hence, why this happened? As we all know, innovation is not equal to work behind closed doors and cooperation usually bring us a win-win situation. Procter & Gamble Company know this well hence they make innovation with their partner. Such contributions have helped them earn consistent recognition from the IRI New Product

Pacesetters Report, an annual list of the biggest innovations in our industry.

3.2.3 Branding

Procter & Gamble Company is a leading brand from the beginning of its establishment, which tied closely with its history. During the American Civil War, the company was awarded many contracts to supply the Union Army with soap and candles, which gained considerable fame. In this case, the brand became a symbol of trustworthy, honorable and respected. In addition to this, Procter & Gamble Company announced to focus on streamlining in 2014. They decided to drop around 100 brands and concentrate on 10 product categories with about 65 brands, which committed to a much simpler, much less complex brand. And in this way cut the cost of management and operations

3.2.4. Go-to-Market capabilities

Procter & Gamble Company has great go-to-market capabilities since it was established. First of all, it is a pioneer in advertising marketing. Not only, the company printed advertisement on the newspaper, but they also advertising on radio program. Second, they set a long-term objective of developing and then make a series of small goals for short-term to realize the long-term objective. They are visionary yet practical.

3.2.5 Scale

It is generally known that Procter & Gamble Company is the largest multinational consumer goods company. Hence the benefits of economies of scale for them are very obvious. Because the company possess large brand, business, operations and people. These contribute to sharing knowledges and transfer technologies. They can also conduce to optimize allocation of resources and reduce the cost of production to improve productivity and efficiency.

3.2.6 Productivity

Productivity is one of the core strengths of Procter & Gamble Company. Benefit by strengthening product portfolio and improving cost structure, their productivity got rapid growth. Still, the company builds a solid foundation for stronger top-line growth, which also contributes to improving productivity. What is more, high productivity brings the company large scale of sales and profits which not only attract more investment but also funding for reproduction and product innovation. In this case form a virtuous circle of production.

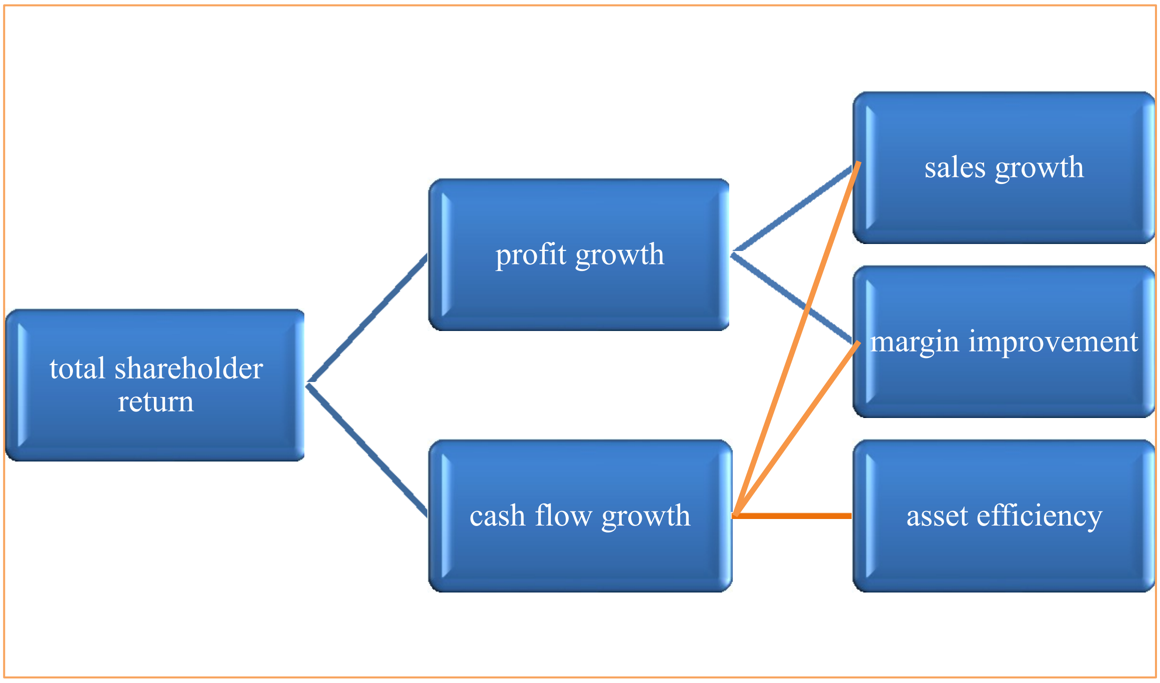
3.3 Company strategy

In 2016, Procter & Gamble Company has formulated some strategies to adapt to the changes of environments, which are value creation, Portfolio Transformation, innovation and Productivity Improvements and Sustainability.

3.3.1 Value creation

Value Creation is top priority. The company applies effective capacity and strategies to transform Procter & Gamble Company into a fast-growing more profitable and far simpler company.

Figure 3.1：Operating total shareholder return



Sources : Company strategy of P&G, available on: http://www.pginvestor.com/Company-Strategy/Index?KeyGenPage=208821

As figure 3.1 shows that the first step is to realize the growth of sales, improve margin and asset efficiency. When this step finished, the company will complete the growth of profit and cash flow. In this way the total shareholder return will increase ultimately.

3.3.2 Portfolio transformation

Since Procter & Gamble Company announced to drop 100 brands and focus on the remaining 65 brands. The company always keeps the business portfolio transformation. The remaining 65 brands are all leaders in their area and have significant growth potential. This movement is design to foster strengths and circumvent weaknesses, which contribute to streamlining the company and stabilized top-line growth rate.

3.3.3 Innovation

From the beginning of Procter & Gamble Company establishment they conduct ongoing innovation. Not only in product research and development, technical renovation but also in advertising and marketing. Nowadays, each P&G product category provides a new portfolio, which includes a mixture of a business plan, product improvements and rules of innovation.

3.3.4 Productivity improvements

The company divided it into three parts: cut the cost of goods sold overhead reductions and improve marketing efficiencies. As mentioned above, Productivity is one of core strengths for Procter & Gamble Company, which is benefit for reducing the cost of production and improves profit margin and asset efficiency.

3.3.5 Sustainable development

Sustainable development is the general direction of modern enterprise development. Procter & Gamble Company is not excepted. The company has set a long-term vision to use 100% renewable energy of plants, use 100% renewable or recycled materials for their products and packaging. They commit that they have zero manufacturing and consumer waste go to landfills and design products that delight consumers while maximizing the conservation of resources.

For the specific actions, the company focus on preserving resources, partnering to find renewable solutions, and pioneering new ideas to reduce waste.

3.4 Products

In Procter & Gamble Company, there are amounts of products which are divided into four categories: Beauty, Baby, Feminine and Family Care, Fabric and Home Care and Health and Grooming. For each category there are many brands. These products are famous all over the world. For instance, Head & Shoulders is a very famous shampoo brand that nearly everyone has used it. Besides, SK-II is very popular among ladies because its beauty secret. For moms, Pampers is priority because it helps baby have a comfortable sleep. Here we got the main brands in Procter & Gamble Company and their performances in 2016.

Table 3.1.1: main brands of Procter & Gamble Company in 2016(part 1)

Reportable segment	% of net sales	% of net earnings	categories	Major brands
Beauty	18%	20%	Hair Care (*Conditioner, Shampoo, Styling Aids, Treatments*) Skin and Personal Care (*Antiperspirant and Deodorant, Personal Cleansing, Skin Care*)	Head & Shoulders, Pantene, Rejoice Olay, Old Spice, Safeguard, SK-II
Grooming	11%	15%	Grooming[2] (Shave Care - *Female Blades & Razors, Male Blades & Razors, Pre- and Post-Shave Products, Other Shave Care;* Appliances)	Braun, Fusion, Gillette, Mach3, Prestobarba, Venus

Table 3.1.2: main brands of Procter & Gamble Company in 2016(part 2)

Health Care	11%	12%	Oral Care (*Toothbrushes, Toothpaste, Other Oral Care*) Personal Health Care (*Gastrointestinal, Rapid Diagnostics, Respiratory, Vitamins/Minerals/Supplements, Other Personal Health Care*)	Crest, Oral-B Prilosec, Vicks
Fabric & Home Care	32%	27%	Fabric Care (*Fabric Enhancers, Laundry Additives, Laundry Detergents*) Home Care (*Air Care, Dish Care, P&G Professional, Surface Care*)	Ariel, Downy, Gain, Tide Cascade, Dawn, Febreze, Mr. Clean, Swiffer
Baby, Feminine & Family Care	28%	26%	Baby Care (*Baby Wipes, Diapers and Pants*) Feminine Care (*Adult Incontinence, Feminine Care*) Family Care (*Paper Towels, Tissues, Toilet Paper*)	Luvs, Pampers Always, Tampax Bounty, Charmin

Sources: P&G at a glance 2016, available on: http://www.pginvestor.com/PG-at-a-Glance/Index?KeyGenPage=1073748355

Table 3.1.1 and 3.1.2 above are the main brands and their occupation of the net sales and earnings. As we can see in the table, Procter & Gamble Company streamlines their product portfolio. Only remain 10 categories around 65brands. For these categories, they are leading in the market and possess advanced technology. And also they are attractive enough for customers to buy them and use them every day, which bring the entire company great earning. Now the company simplifies the production, which is not only beneficial for keeping on top but also exploiting the potential market.

3.5 Current situation

As the leader in the FMCG (fast-moving consumer goods) sector the Procter & Gamble Company is facing a predicament. The market shares have been declining in more than one category.

From the last century the Procter & Gamble Company has experienced a rapid development and played an essential role in amounts of people's daily life in many countries. However, the market shares of the company were declining during these years. And the net sales are also decreasing for four years. It is very common in developing countries, especially, in China. Well, the competitor of the P&G company, Unilever's net sales got a slightly growth. What is more, some other cosmetic company gets a small piece of pie.

In this case, the company cut some of their small brands and retains 10 product categories about 65 brands to keep their advantages.

Though, the Procter & Gamble Company sacrificed the knights in order to save the queen, they still haven't got what they want.

Chapter 4 Specific Analysis Results of the Company

The aim of this chapter is to use the methods mentioned in chapter 2 to analyze the specific financial condition of the Procter & Gamble Company. Similarly, this chapter is divided into parts, which are common-size analysis, financial ratio analysis and DuPont analysis.

4.1 Common-size analysis

Generally, we use this method from two parts that are horizontal analysis and vertical analysis. Usually, there are amounts of data from the financial statement and the items on the statement may have discrepancy between different companies. Hence we often use all the broad heading in the financial statements, which is much more convenient to conduct the analysis.

4.1.1 Horizontal analysis

In this part, we compare some financial ratios and some line items in the financial statements over a certain period, which are the balance sheet, cash flow statement and income statement.

4.1.1.1 Horizontal analysis of the balance sheet

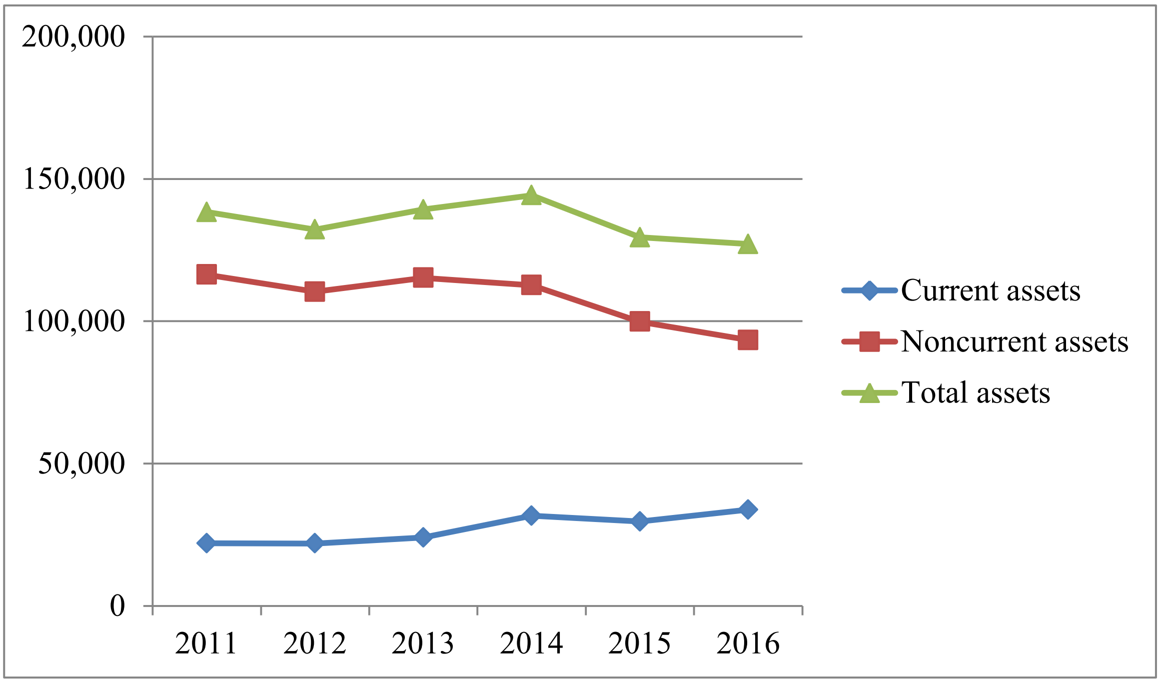
Table 4.1: Data of the assets. (USD $ in millions)

	2016	2015	2014	2013	2012	2011
Current assets	33,782	29,646	31,617	23,990	21,910	21,970
Noncurrent assets	93,354	99,849	112,649	115,273	110,334	116,384
Total assets	127,136	129,495	144,266	139,263	132,244	138,354

Table 4.1 shows that the current assets increased from 21,970 to 33,782 during 2011 to 2016, whereas, the noncurrent assets decreased from 116,384 to 93,354. As for the total assets, they

also decreased from 138,354 to 127,136. In 2014, the company own maximum total assets during these six years.

Figure 4.1: Horizontal analysis of the assets. (USD $ in millions)

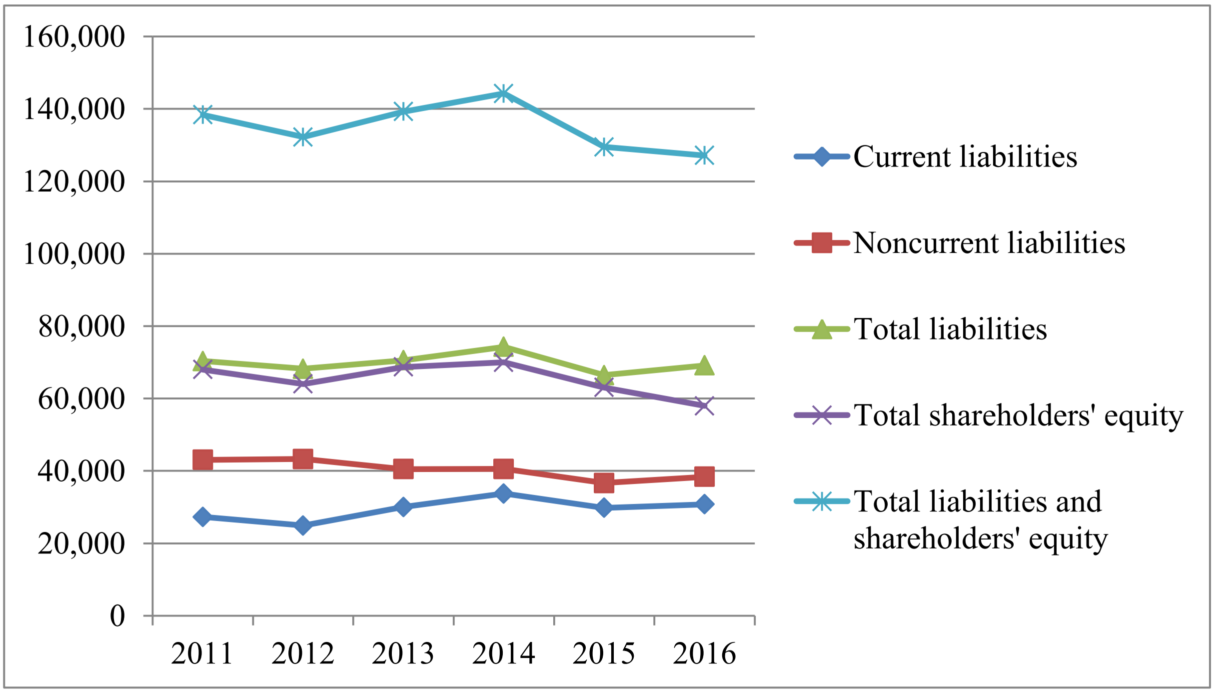


As figure 4.1 shows both current assets and noncurrent assets have a quite stable tendency. In detail, the current assets have increased in some degree and the noncurrent assets have a little decline. Under the interaction of current assets and noncurrent assets the total assets decreased from 2011 to 2016. By that means the noncurrent assets give more negative effects to total assets.

Table 4.2: Data of liabilities and equities (USD $ in millions)

	2016	2015	2014	2013	2012	2011
Current liabilities	30,770	29,790	33,726	30,037	24,907	27,293
Noncurrent liabilities	38,383	36,655	40,564	40,517	43,302	43,060
Total liabilities	69,153	66,445	74,290	70,554	68,209	70,353
Total shareholders' equity	57,983	63,050	69,976	68,709	64,035	68,001
Total liabilities and shareholders' equity	127,136	129,495	144,266	139,263	132,244	138,354

Figure 4.2: Horizontal analysis of liabilities and equities. (USD $ in millions)



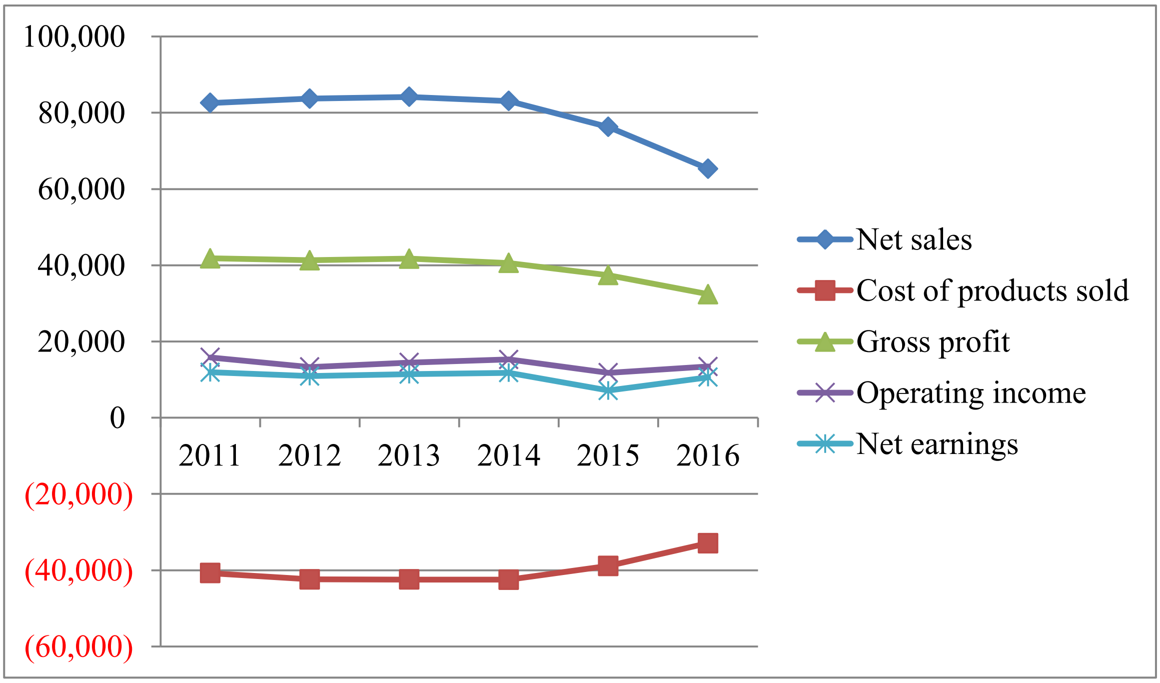
As we can see that equites are more volatile than the liabilities. Both current liabilities and noncurrent liabilities are quite smooth and steady. In 2014 liabilities reached the highest point 74,290 and total shareholders' equity also reached the highest point 69,976 in these six years. Both liabilities and equities have a little decline after some fluctuations. Hence the total liabilities and shareholder's equities increased to 144,266 in 2014 and decreased to 127,136 in 2016.

4.1.1.2 Horizontal analysis of the income statement

Table 4.3: Data of the income statement (USD $ in millions)

	2016	2015	2014	2013	2012	2011
Net sales	65,299	76,279	83,062	84,167	83,680	82,559
Cost of products sold	-32,909	-38,876	-42,460	-42,428	-42,391	-40,768
Gross profit	32,390	37,403	40,602	41,739	41,289	41,791
Operating income	13,441	11,790	15,288	14,481	13,292	15,818
Net earnings	10,604	7,144	11,785	11,402	10,904	11,927

Figure 4.3: Horizontal analysis of the income statement. (USD $ in millions)



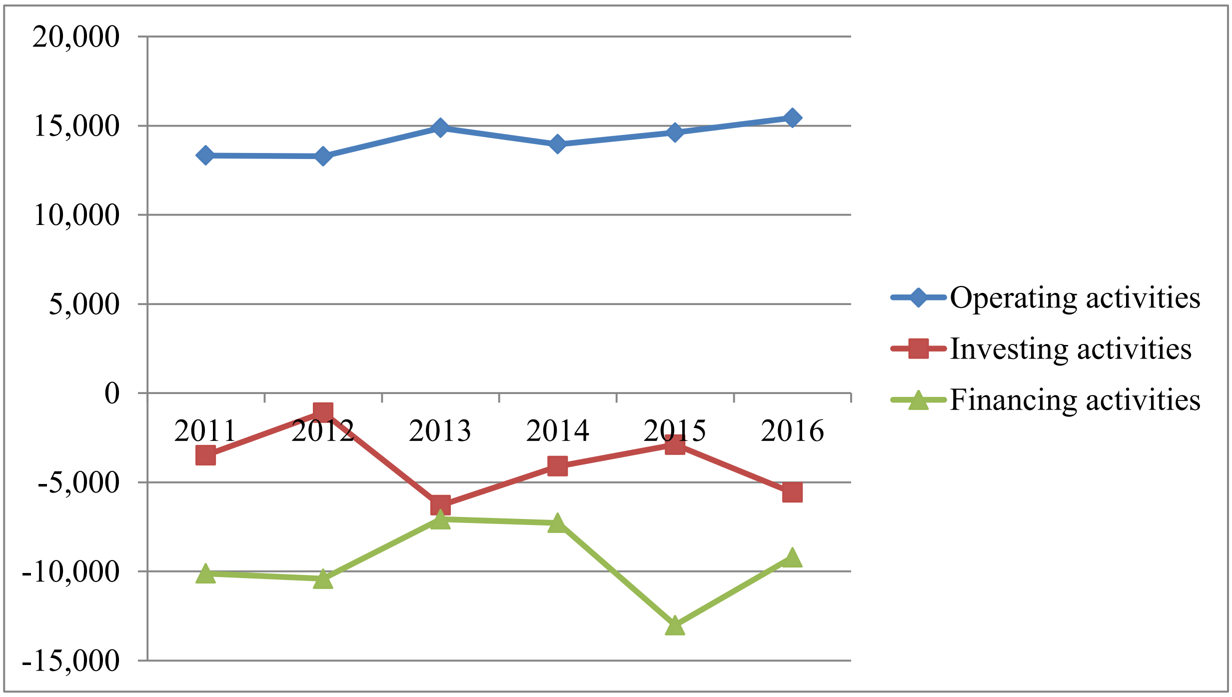
As we can see that in table 4.3 net sales of the company experienced a trend of first increase and decrease afterwards. In 2013 net sales reached the highest point, the amount of which is 84,167(USD $ in millions). Similarly, the cost of products sold and gross profit show the same tendency with net sales. However, differ from them, the amount of operating income and net earnings rose in 2016.

4.1.1.3 Horizontal analysis of the cash flow statement

Table 4.4: Data of the cash flow statement (USD $ in millions)

	2016	2015	2014	2013	2012	2011
Operating activities	15,435	14,608	13,958	14,873	13,284	13,330
Investing activities	-5,575	-2,891	-4,107	-6,295	-1,093	-3,482
Financing activities	-9,213	-13,019	-7,279	-7,071	-10,410	-10,122

Figure 4.4: Horizontal analysis of the cash flow statement. (USD $ in millions)



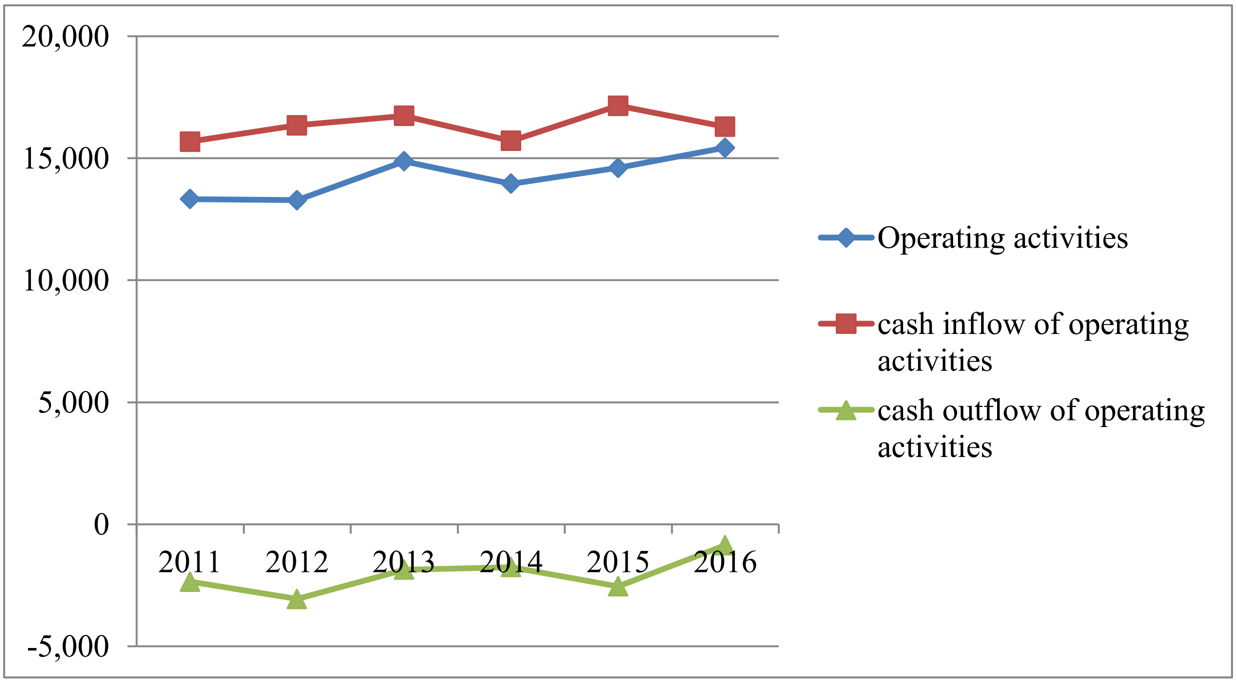
For the cash flow of the company, operating activities are more stable than investing and financing activities. Operating activities are increasing from 13,330 to 15,435 during

2011-2016. Well, investing activities decreased from -3,482 to -5,575 and financing activities increased from -10,122 to -9,213. Though investing and financing activities are volatile during these six years, the absolute changes between the 2011 and 2016 are not very wide. (USD $ in millions)

Table 4.5: Specific data of operating activities (USD $ in millions)

	2016	2015	2014	2013	2012	2011
Operating activities	15,435	14,608	13,958	14,873	13,284	13,330
cash inflow of operating activities	16291	17153	15713	16736	16348	15681
cash outflow of operating activities	-856	-2545	-1755	-1863	-3064	-2351

Figure 4.5: Horizontal analysis of operating activities (USD $ in millions)

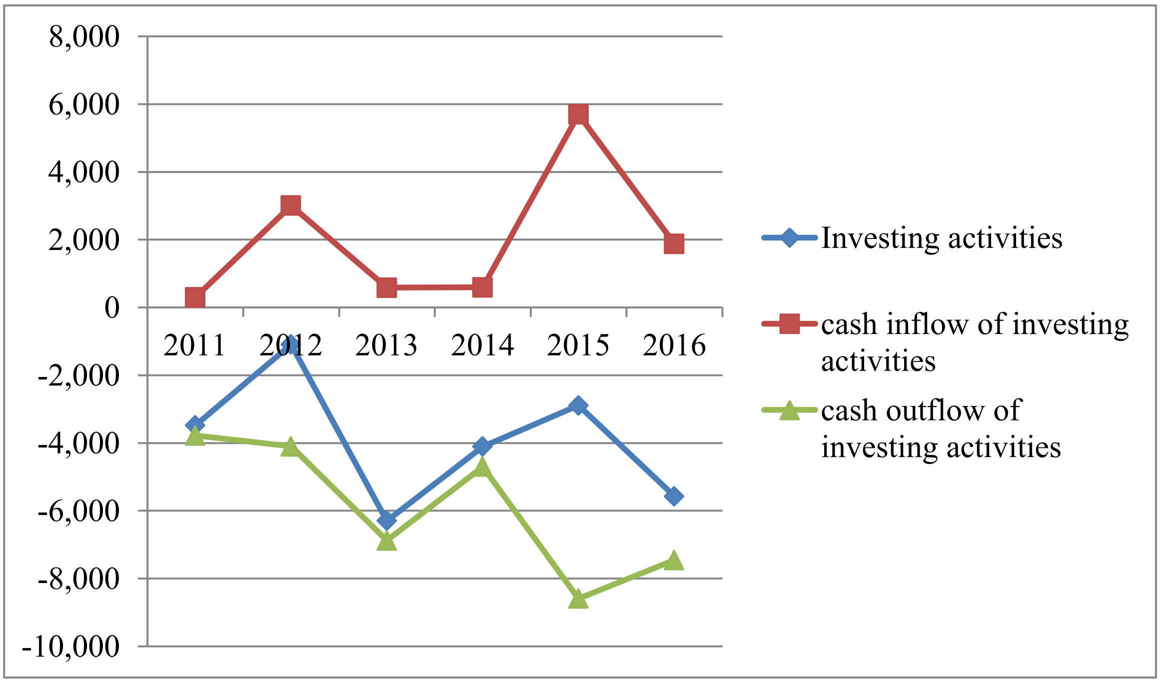


More in detail, both cash inflow and cash outflow of operating activities show a wave rising trend, which results in a little increasing in operating activities. Though cash outflow shows increasing trend, the absolute amount of the cash outflow is decreased in reality. In specific words it decreased from 2351 to 856. (USD $ in millions)

Table 4.6: Specific data of investing activities (USD $ in millions)

	2016	2015	2014	2013	2012	2011
Investing activities	-5,575	-2,891	-4,107	-6,295	-1,093	-3,482
cash inflow of investing activities	1879	5700	594	584	3005	298
cash outflow of investing activities	-7454	-8591	-4701	-6879	-4098	-3780

Figure 4.6: Horizontal analysis of investing activities (USD $ in millions)

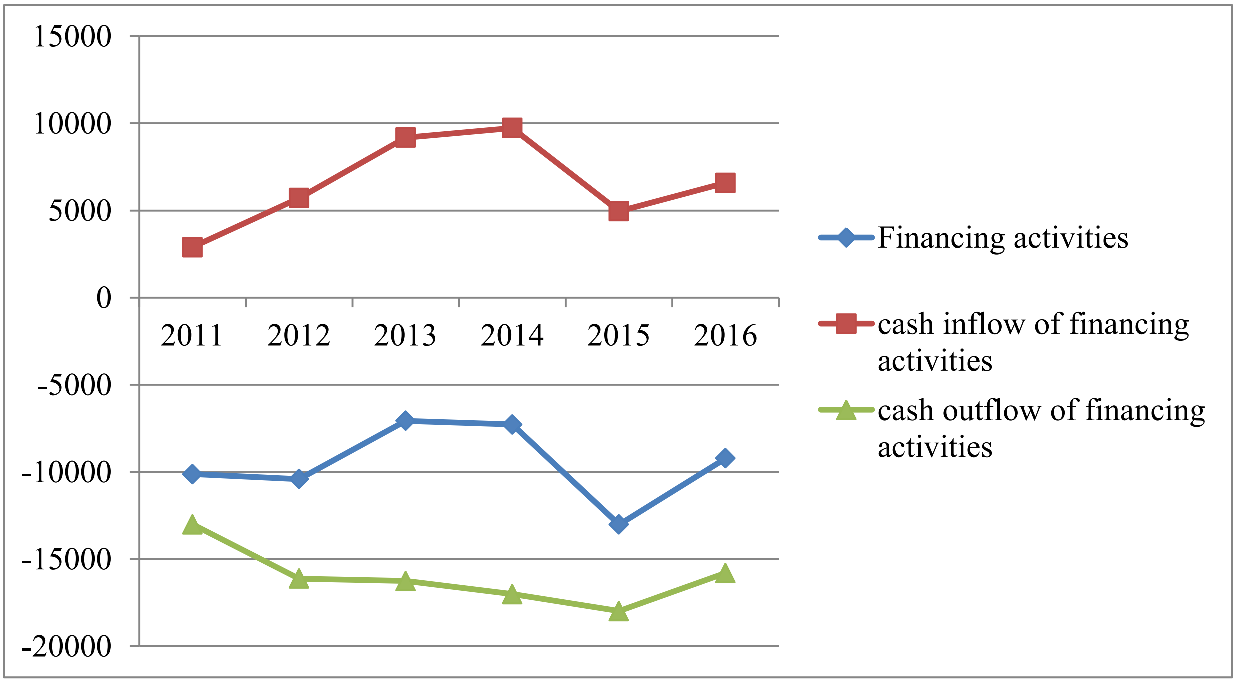


Different from operating activities, cash inflow of investing activities show a volatile increasing trend while cash outflow show a wave decrease. In absolute amount, cash outflow changed from 3780 to 7454 from 2011 to 2016. In general, investing activities keep negative and are decreasing during these years. (USD $ in millions)

Table 4.7: Specific data of financing activities (USD $ in millions)

	2016	2015	2014	2013	2012	2011
Financing activities	-9,213	-13,019	-7,279	-7,071	-10,410	-10,122
cash inflow of financing activities	6588	4964	9732	9186	5714	2890
cash outflow of financing activities	-15801	-17983	-17011	-16257	-16124	-13012

Figure 4.7：Horizontal analysis of financing activities (USD $ in millions)



Similar to the investing activities, cash inflow of financing activities present a wave rising while cash outflow got slight decrease. In absolute amount, cash inflow increased from 2890 to 6588 and cash outflow changed from 13012 to 15801. And financing activities keep negative and increased from -10,122 to -9,213. (USD $ in millions)

On the whole view of the horizontal analysis we find that first in the balance sheet total assets and shareholder's equity decreased while total liability stayed the same level; second both revenue and gross profit decreased while total costs are increased in income statement; third both operating and financing activities are increased but investing activities got a decrease.

Well, how can these situations happen?

In external environment, the whole fast-moving consumer goods industry shows a declining tendency. As time goes by, human's consumption patterns changed with the development of science and technology. People prefer consuming online to shopping in a physical store where featured fast-moving consumer goods industry. Hence the growth rate of the whole industry and profit are very low during these years. As the thumb of fast-moving consumer goods industry, Procter & Gamble Company is influenced by macro-economic environment deeply. Still, with increasing of some small fast-moving consumer goods companies, Procter & Gamble Company ended their dominance in this industry and are besieged on all sides.

On one hand, affected by macro environment Procter & Gamble Company got some decrease in their total revenues and their profits. On the other side, to deal with these problems the company makes plenty of adjustments within the company.

In internal environment, Procter & Gamble Company announced to make a "Diet Plan" in August, 2014. They decided to drop around 100 brands and concentrate on 10 product categories with about 65 brands, which committed to a much simpler, much less complex brand. Hence as we can see in previous tables and figures there are larger fluctuations around 2014 in three financial statements. Usually, liquidity is very important at the beginning of a new plan. Hence the current assets are increasing while the noncurrent assets are decreasing. And to gain more money, financing activities augment more than ever. Now that Procter & Gamble Company drops hence many brands, net sales decline with it. In this case, total shareholder's equity decreased.

In addition, a business decision also influenced external operation. Because of the sharp cutoff of brands the related manufacturers will also be cut off later, which results in fund settlements between each other. And the settlement will affect the cash flow of the company. In this situation, we can explain why operating income and net earnings keep relatively stable when both revenues and profits are declining. Well, a new decision always faces risk. In order to guard against these risks, the company invested in other area which is a common hedging method for large enterprises.

Hence interact with these two reasons, the situation that shows in tables and figures happened.

4.1.2 Vertical analysis

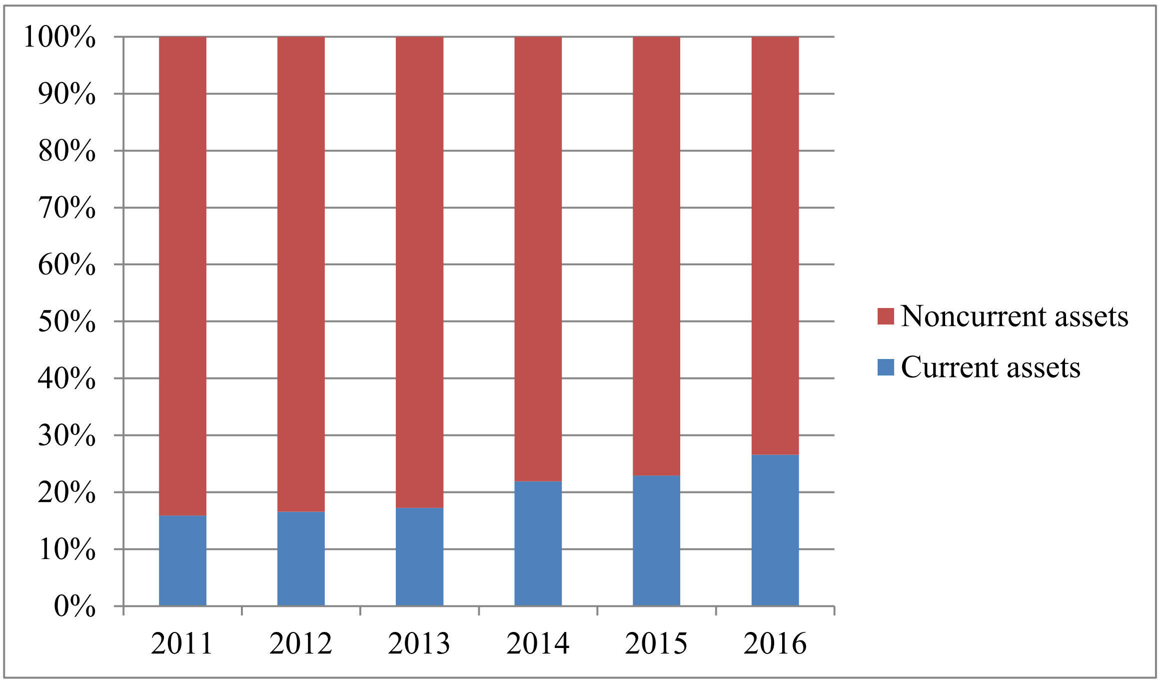
In this part, we calculate the proportion of different terms in the financial statements to analyze which component play most important roles in the change of terms. And analyze internal operation of Procter & Gamble Company.

4.1.2.1 Vertical analysis of the balance sheet

Table 4.8: Proportion of assets

	2016	2015	2014	2013	2012	2011
Current assets	26.57%	22.89%	21.92%	17.23%	16.57%	15.88%
Noncurrent assets	73.43%	77.11%	78.08%	82.77%	83.43%	84.12%
Total assets	100%	100%	100%	100%	100%	100%

Figure 4.8: Vertical analysis of assets (%)

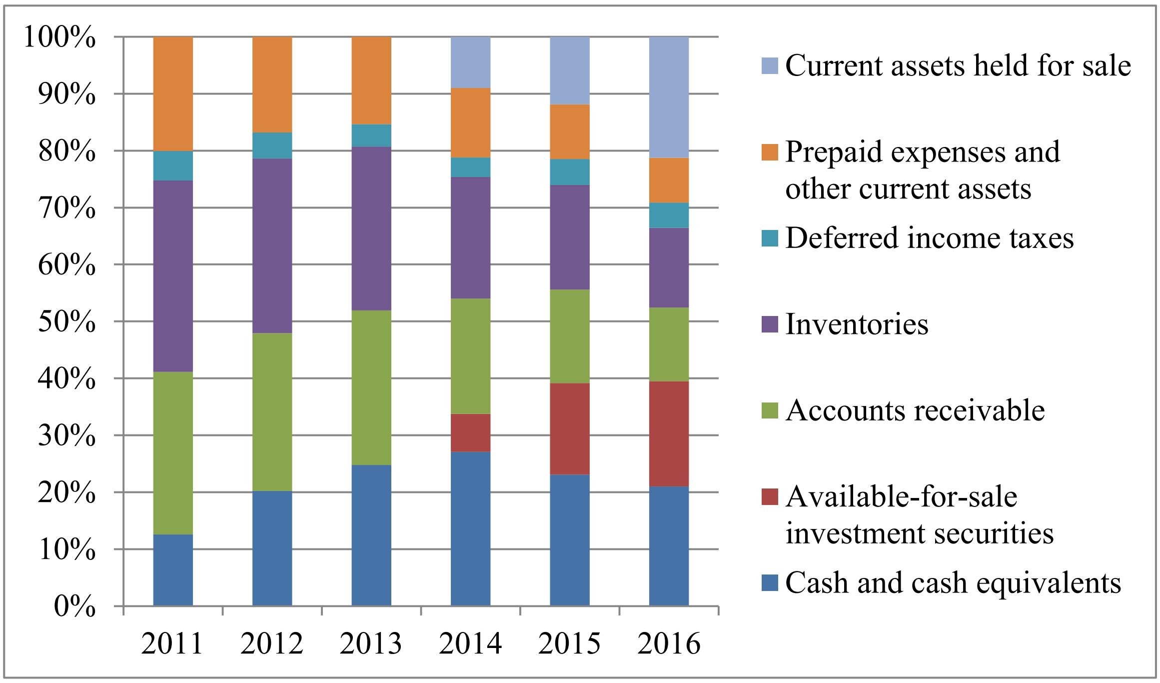


In figure4.8 we know that noncurrent assets accounted for more percentage than current assets. Well, the proportion of current assets is increasing from 2011 to 2016. In 2016, the current assets reached 26.57% of total assets.

Table 4.9: Proportion of total current assets

	2016	2015	2014	2013	2012	2011
Cash and cash equivalents	21.02%	23.09%	27.07%	24.79%	20.25%	12.60%
Available-for-sale investment securities	18.49%	16.08%	6.73%	0.00%	0.00%	0.00%
Accounts receivable	12.94%	16.40%	20.20%	27.13%	27.70%	28.56%
Inventories	13.96%	18.40%	21.38%	28.80%	30.68%	33.59%
Deferred income taxes	4.46%	4.57%	3.45%	3.95%	4.57%	5.19%
Prepaid expenses and other current assets	7.85%	9.62%	12.16%	15.33%	16.81%	20.06%
Current assets held for sale	21.27%	11.84%	9.01%	0.00%	0.00%	0.00%
Total current assets	100%	100%	100%	100%	100%	100%

Figure 4.9: Vertical analysis of total current assets(%)

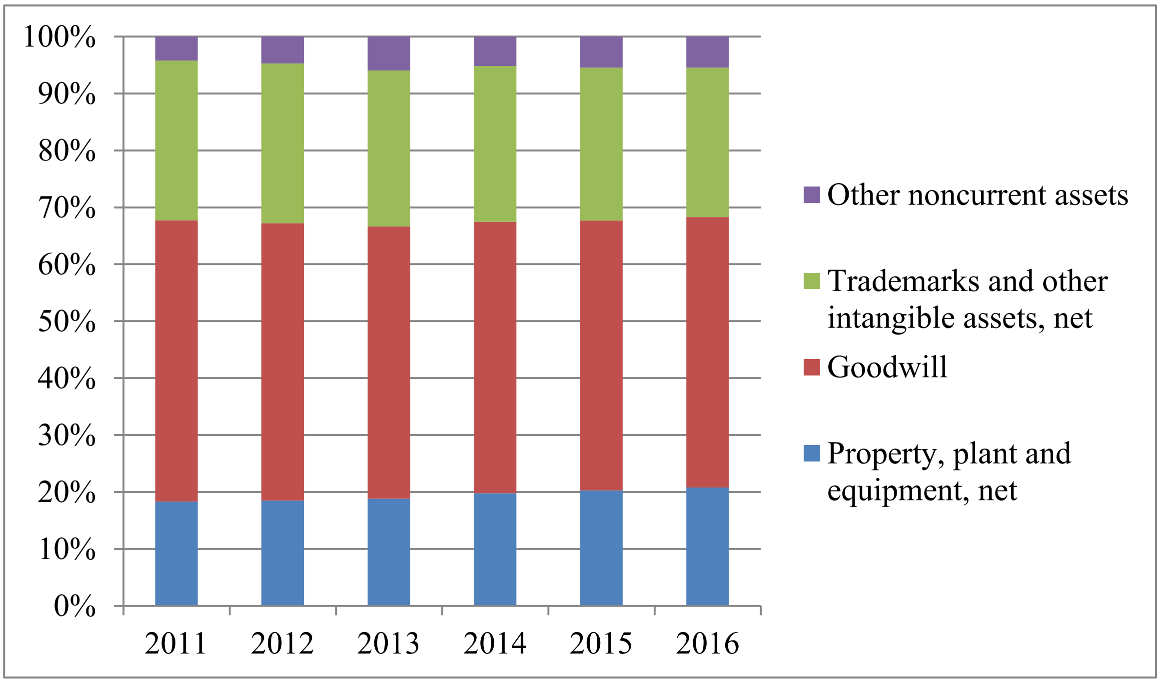


As table 4.9 shows that inventories accounted most in current assets from 2011 to 2013, which is over 30%. From 2014 to 2015, cash and cash equivalent occupied largest proportion of current assets. And in 2016 cash and cash equivalent got almost the same percentage with current assets held for sale, which is around 21%. There are also two current assets that are not included from 2011 to 2013, which are available-for-sale investment securities and current assets held for sale. What is more, the proportion of inventories and account receivable are decreasing and the proportions of other current assets are increasing.

Table 4.10: Proportion of total noncurrent assets

	2016	2015	2014	2013	2012	2011
Property, plant and equipment, net	20.77%	20.30%	19.80%	18.80%	18.47%	18.30%
Goodwill	47.51%	47.39%	47.67%	47.88%	48.74%	49.46%
Trademarks and other intangible assets, net	26.27%	26.87%	27.38%	27.39%	28.09%	28.03%
Other noncurrent assets	5.45%	5.44%	5.15%	5.94%	4.71%	4.22%
Total noncurrent assets	100%	100%	100%	100%	100%	100%

Figure 4.10: Vertical analysis of total noncurrent assets (%)

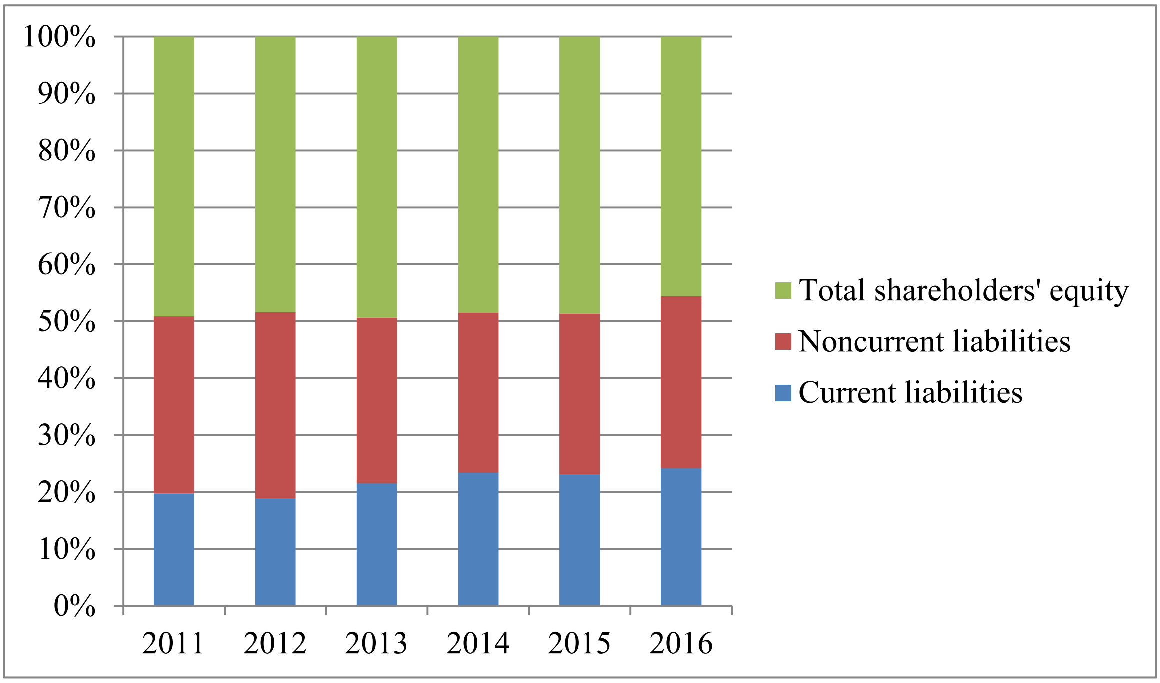


As for noncurrent assets, goodwill accounted most from 2011 to 2016, the percentage of which is over 45%. However it declined slightly during these six years. Trademarks and other intangible assets, net are in the second place which is over a quarter of noncurrent assets. Property, plant and equipment, net are in the third place.

Table 4.11: Proportion of total liabilities and total shareholder's equity

	2016	2015	2014	2013	2012	2011
Current liabilities	24.20%	23.00%	23.38%	21.57%	18.83%	19.73%
total noncurrent liabilities	30.19%	28.31%	28.12%	29.09%	32.74%	31.12%
Total shareholders' equity	45.61%	48.69%	48.50%	49.34%	48.42%	49.15%
Total liabilities and shareholders' equity	100%	100%	100%	100%	100%	100%

Figure 4.11: Vertical analysis of total liabilities and total shareholder's equity (%)

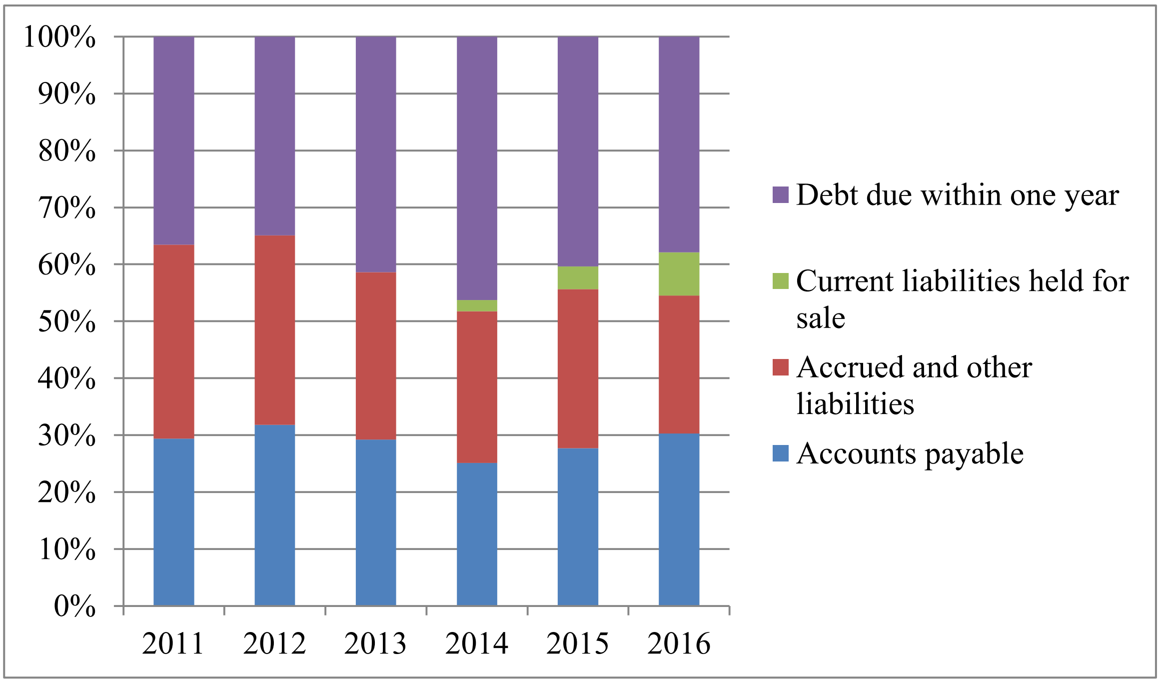


In table 4.11 and figure 4.11, total liabilities and total shareholder's equity almost have the same percentage. Still, current liabilities are increasing and noncurrent liabilities are decreasing from 2011 to 2016.

Table 4.12: Proportion of total current liabilities

	2016	2015	2014	2013	2012	2011
Accounts payable	30.31%	27.72%	25.09%	29.22%	31.80%	29.39%
Accrued and other liabilities	24.21%	27.95%	26.68%	29.39%	33.28%	34.04%
Current liabilities held for sale	7.61%	3.98%	1.96%	0.00%	0.00%	0.00%
Debt due within one year	37.87%	40.35%	46.27%	41.39%	34.92%	36.57%
Current liabilities	100%	100%	100%	100%	100%	100%

Figure 4.12: Vertical analysis of total current liabilities (%)

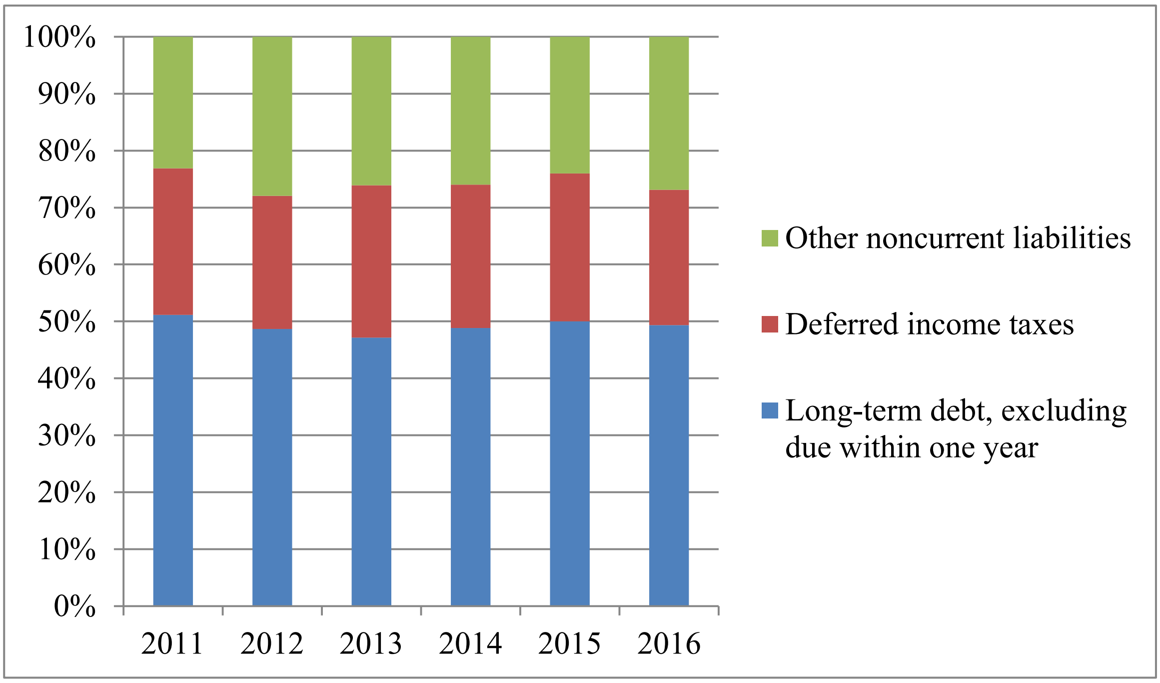


Debt due within one year accounted in the first place in current liabilities. Then, accounts payable and accrued and other liabilities are about the same percentage. There are no current liabilities held for sale from 2011 to 2013.

Table 4.13: Proportion of total noncurrent liabilities

	2016	2015	2014	2013	2012	2011
Long-term debt, excluding due within one year	49.36%	50.00%	48.84%	47.17%	48.68%	51.17%
Deferred income taxes	23.74%	26.00%	25.19%	26.72%	23.40%	25.71%
Other noncurrent liabilities	26.90%	23.99%	25.97%	26.11%	27.92%	23.12%
Noncurrent liabilities	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Figure 4.13: Vertical analysis of total noncurrent liabilities (%)



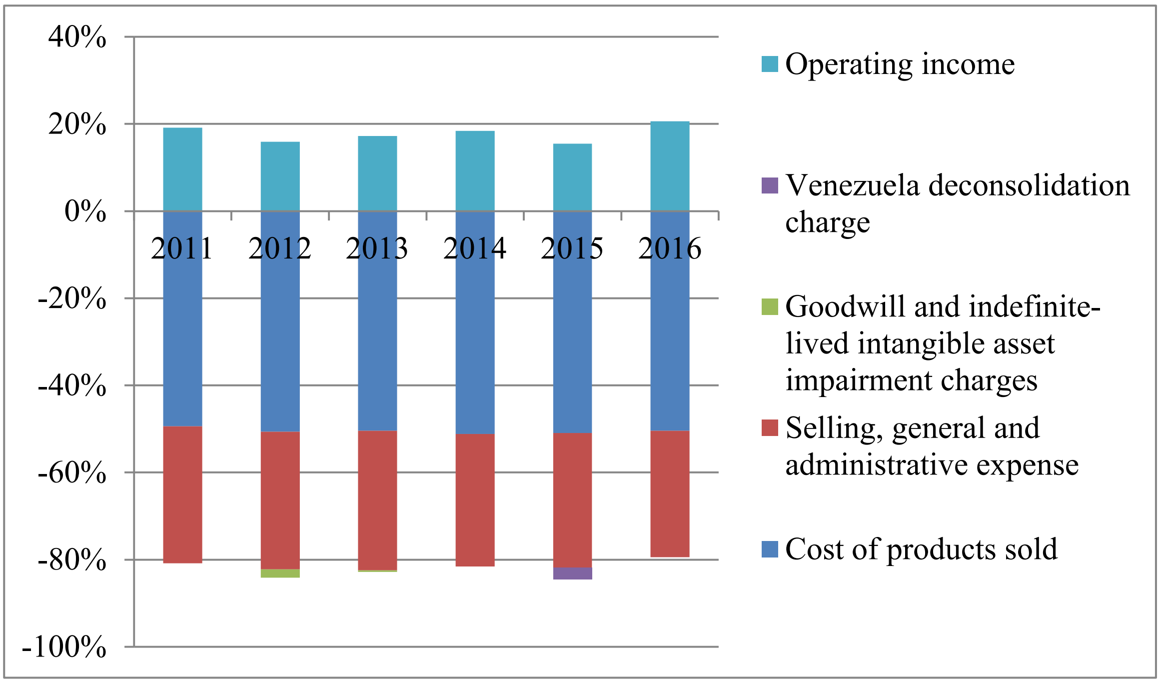
Long-term debt, excluding due within one year occupied approximately half of the noncurrent liabilities. As we can see deferred income tax not only included in current assets but also included in noncurrent liabilities. In noncurrent liabilities, deferred income tax leads to an outflow of economic benefits, which makes up of duty to pay taxes. In current assets, deferred income tax is the discrepancy between tax base and book value. It is because of timing differences of income tax.

4.1.2.2 Vertical analysis of the income statement

Table 4.14: Proportion of the revenue

	2016	2015	2014	2013	2012	2011
Cost of products sold	50.40%	50.97%	51.12%	50.41%	50.66%	49.38%
Selling, general and administrative expense	29.02%	30.92%	30.48%	32.02%	31.57%	31.46%
Goodwill and indefinite-lived intangible asset impairment charges	0.00%	0.00%	0.00%	0.37%	1.88%	0.00%
Venezuela deconsolidation charge	0.00%	2.66%	0.00%	0.00%	0.00%	0.00%
Operating income	20.58%	15.46%	18.41%	17.21%	15.88%	19.16%
Revenue	100%	100%	100%	100%	100%	100%

Figure 4.14: Vertical analysis of the income statement (%)



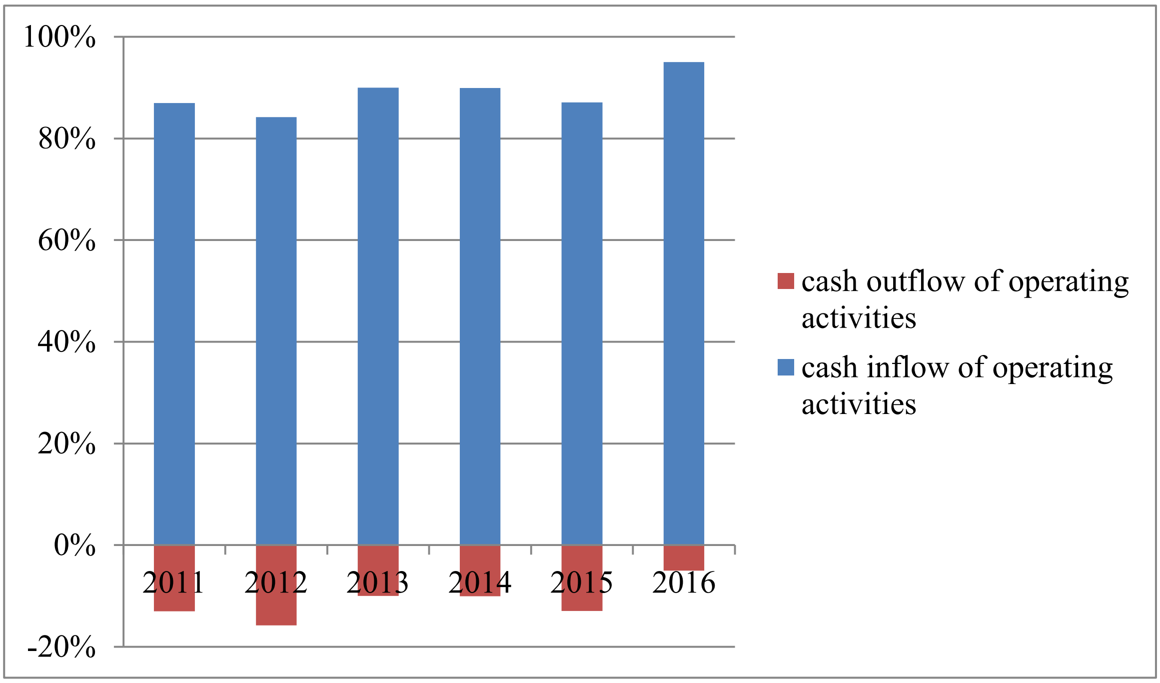
In the income statement, costs of products sold are the relatively largest part of revenues, which means total profit accounted a small part of revenues. And in table 4.14 operating income got a slight increase from 2011 to 2016.

4.1.2.3 Vertical analysis of the cash flow statement

Table 4.15: Proportion of operating activity

	2016	2015	2014	2013	2012	2011
cash inflow of operating activities	105.55%	117.42%	112.57%	112.53%	123.07%	117.64%
cash outflow of operating activities	-5.55%	-17.42%	-12.57%	-12.53%	-23.07%	-17.64%
Operating activities	100%	100%	100%	100%	100%	100%

Figure 4.15: Vertical analysis of operating activity (%)

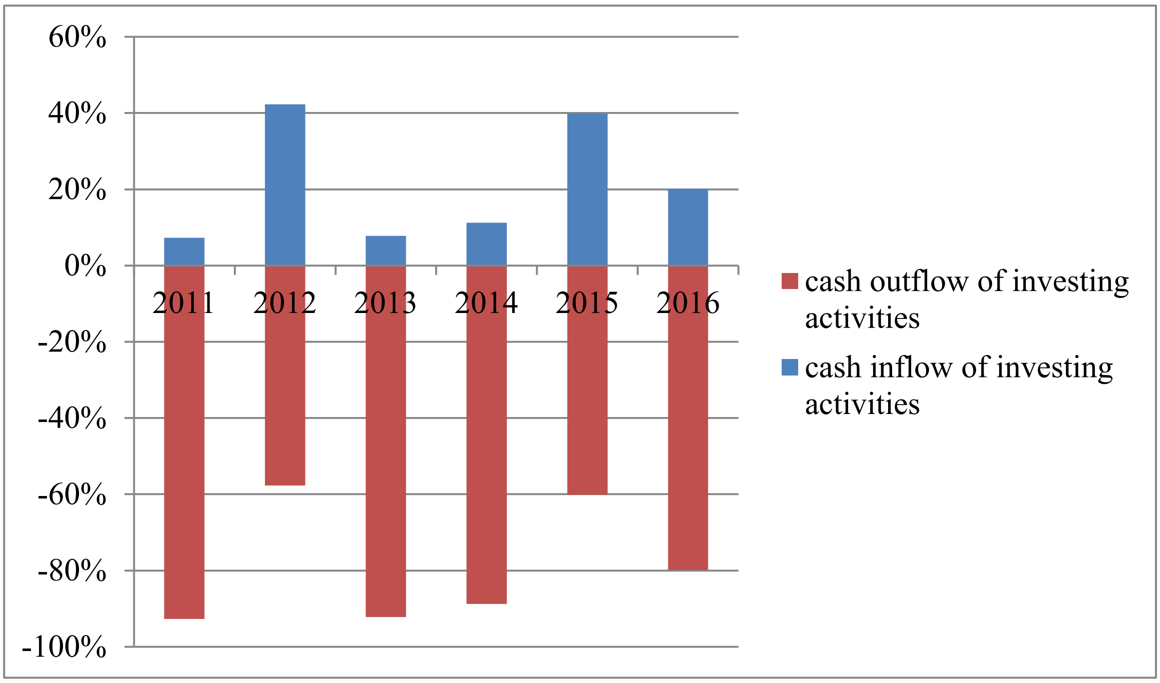


As table 4.15 shows, cash outflow of operating activities are experiencing a wave decline from 2011 to 2016. And cash inflow of operating activities is increasing. In 2015, cash inflow of operating activities reached a peak during these six years.

Table 4.16: Proportion of investing activity

	2016	2015	2014	2013	2012	2011
cash inflow of investing activities	-33.70%	-197.16%	-14.46%	-9.28%	-274.93%	-8.56%
cash outflow of investing activities	133.70%	297.16%	114.46%	109.28%	374.93%	108.56%
Investing activities	100%	100%	100%	100%	100%	100%

Figure 4.16: Vertical analysis of investing activity (%)

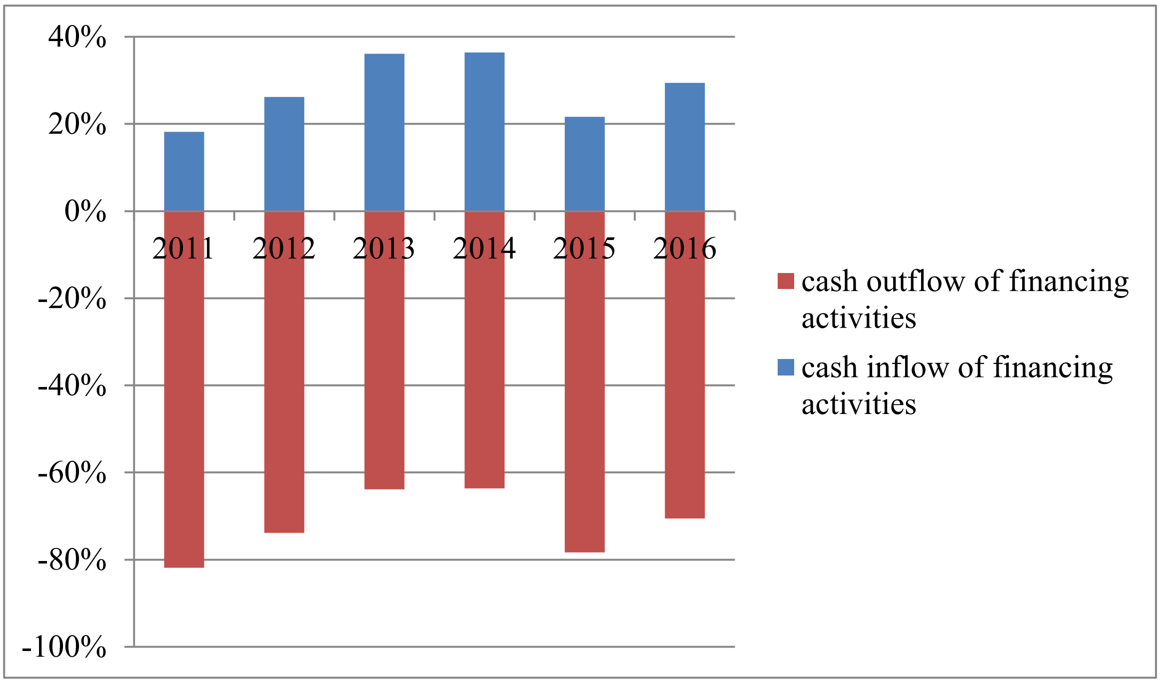


As we can see in figure 4.16, both cash inflow and outflow of investing activities are very volatile. Because the discrepancy between percentage of cash inflow and outflow is different we know that absolute amount of the difference got a wave increase. According the original data of this cash flow, both cash outflow and inflow reached a peak in 2015.

Table 4.17: Proportion of financing activity

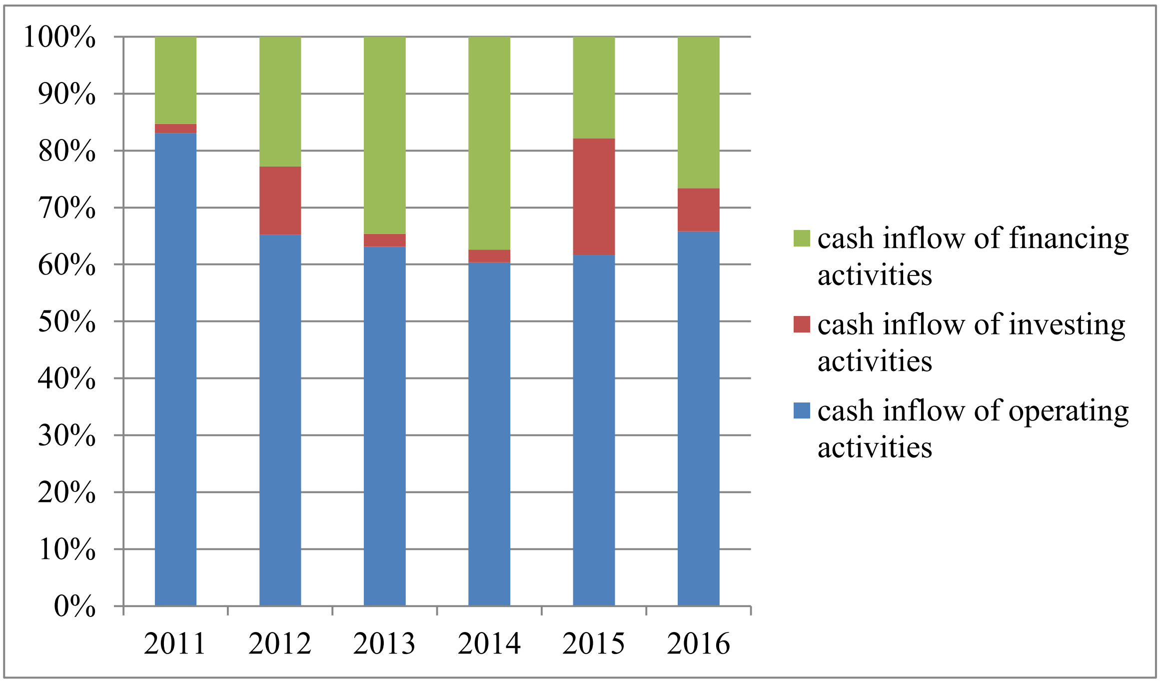
	2016	2015	2014	2013	2012	2011
cash inflow of financing activities	-71.51%	-38.13%	-133.70%	-129.91%	-54.89%	-28.55%
cash outflow of financing activities	171.51%	138.13%	233.70%	229.91%	154.89%	128.55%
Financing activities	100%	100%	100%	100%	100%	100%

Figure 4.17: Vertical analysis of financing activity (%)



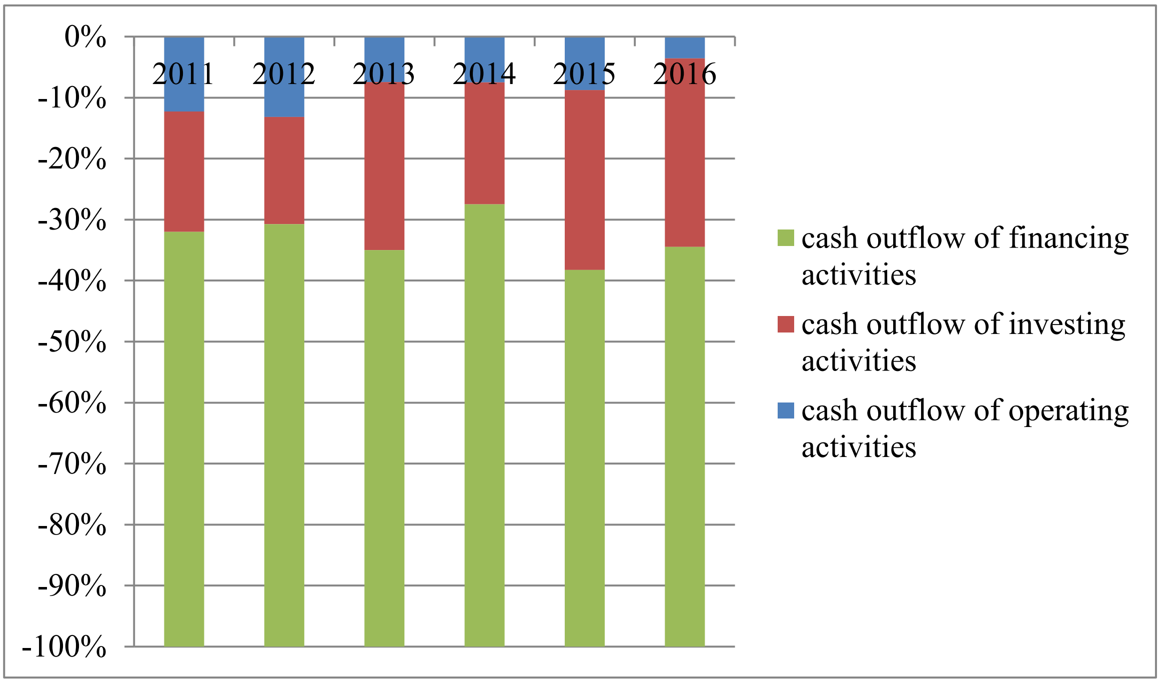
Similar with investing activities, both cash inflow and cash outflow of financing activities has a wave rise from 2011 to 2016. Maximum cash flow is around 2014 and 2015 according the original data.

Figure 4.18: Vertical analysis of cash inflow



As figure 4.18 shows, percentage of cash inflow of operating activities decreased from 2011 to 2016. And most cash inflow is from operating activities. From 2013 to 2014, cash inflow of financing activities is much more than that in other years. And in 2015, cash inflow of investing activities reached a peak.

Figure 4.19: Vertical analysis of cash outflow



Well, in figure 4.19, cash outflow of financing activities contribute most in total cash outflow. In 2014, cash outflow of financing activities reached a peak. Well, cash outflow of investing activities is increasing from 2014 to 2016.

To sum up: firstly, noncurrent assets are more than current assets. As it is known to us all, the percentage of current assets shows a company's ability to use assets effectively. Well, because of the streamlining plan of Procter & Gamble Company, the percentage of current assets is increasing. Especially from 2014 to 2016 there are two kinds of current assets which are available-for-sale securities and current assets held for sale developed from nothing. Usually, we regard available-for-sale securities as a temporary investment. Not only can it bring benefit to the company but it also help keep liquidity of the company. Hence to support their plan, Procter & Gamble Company increase this kind of current assets. In past time, inventories accounted most in current assets. However, to reject the useless procedure and simplify and better the production, the company decreased the inventories, which contributes to the innovation of the company. Besides, there is another current assets decreased during these years so-called accounts receivable. As we said previously, Procter & Gamble Company cut off their brands also cut off the correspondence with some manufactures. And in this way increase the cash and cash equivalent and decrease the accounts receivable. As for noncurrent assets, we discovered that intangible assets are always more than tangible assets in Procter & Gamble Company. This situation is the result of traits of fast-moving consumer goods industry. This kind of company concentrates more on marketing than manufacturing. Hence goodwill, trademark and other intangible assets are more significant for Procter & Gamble Company. And that is why goodwill and other intangible assets accounted most in noncurrent assets.

Secondly, total liabilities are more than total shareholder's equity. That means the company relies more on contractual relationship. And still, current liability is lower than noncurrent liability, which shows Procter & Gamble Company relies more on long-term funds. Generally, relationship between dealers and manufactures are durable. Frequent changes are not beneficial for the company.

Thirdly, costs accounted most in revenue. In fast-moving consumer goods industry, profit margin is not very high or even we can say it is very low. Company gain their profit rely much on sales volume. As a result of decreasing volume, total revenue is decreasing. From production to sale, there are various kinds of costs in circulation. Hence costs are very high. Well, Procter & Gamble Company cut off brands leads to reduction of costs which support increasing of operating income. What is more, Procter & Gamble Company devoted in technology innovation which also help to cut off the costs. Revenues of the company are still declining over recent four years. However, a new decision needs to be confirmed by times. Whether it is valid is still can't be concluded now.

Last but not least, 2014 and 2015 got most cash flow among these six years. As we all know, a new announcement needs to be supported by amounts of funds. Hence cash inflow and outflow will become frequently. Operating activities are the core activities in a company, hence most cash inflow is from operating activities. Well, investing and financing activities also contribute to operation of a company. Hence keep appropriate proportion of these activities is also very important. In this case, most cash outflow is from financing and investing activities. To support both innovation and brands streamlining, Procter & Gamble Company increased their investing and financing activities recently.

4.2 Financial ratio analysis

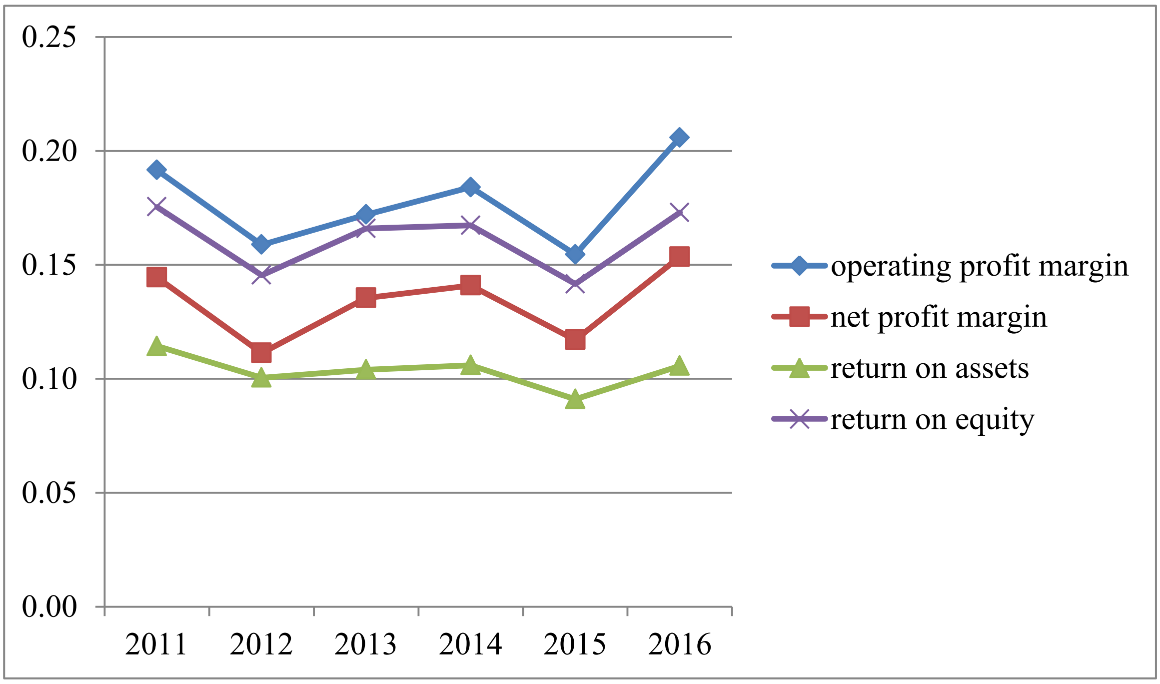
In this section, we analyze concretely capacity of Procter & Gamble Company from four aspects which are profitability, liquidity, solvency and assets management.

4.2.1 Profitability ratio

Table 4.18: Data of profitability ratio

	2016	2015	2014	2013	2012	2011
operating profit margin	0.21	0.15	0.18	0.17	0.16	0.19
net profit margin	0.15	0.12	0.14	0.14	0.11	0.14
return on assets	0.11	0.09	0.11	0.10	0.10	0.11
return on equity	0.17	0.14	0.17	0.17	0.15	0.18

Figure 4.20: Trend of profitability ratio from 2011 to 2016



Generally, these ratios returned to normal and got a slight increasing having some volatility. In 2015, these four ratios reached lowest point from 2011 to 2016. Operating profit margin is around 0.15, net profit margin is around 0.12, return on assets is around 0.09 and return on equity is around 0.14.

For operating profit margin, we know it reflects a company's ability to use assets and control costs. From 2011 to 2016, operating profit margin of Procter & Gamble Company has increased from 0.19 to 0.21. We know that if operating profit increased or revenue decreased, the ratio will rise. However, in this situation, operating profit decreased from 15818 to 13441 and also, revenue decreased from 82559 to 65299. That is to say, this change is caused by cost reduction actually. And conjure up what we mentioned previously, Procter & Gamble Company cut off nearly 100 brands is to eliminate high costs which are a weakness in fast-moving consumer goods industry. In addition, we know Procter & Gamble Company is included in fast-moving consumer goods industry but also included in household product. According to the newest data we know that average operating profit margin is around 21% in household industry. In other words, Procter & Gamble Company has reached average level in the industry in 2016. Having experienced a slight decline from 2014 to 2015, the company finally returns to average level. That means the company is getting better now.

Different from operating profit margin, net profit margin focus more on interest and tax paid relative to revenue. As we can see in table 4.18, net profit margin increased from 0.14 to 0.15. This change is the result of decline in interest and tax paid from 3891 in 2011 to 3414 in 2016. In 2012, Procter & Gamble Company announced to reduce the establishment. And these years nearly 4100 staffs left the company. And then the interests are decreasing. And in the household product industry, the average net profit margin is around 10%. While, the company's net profit margins in these six years are all higher than the average level. That also reveals relative to other companies in this industry, Procter & Gamble Company has less interests and taxes than others. Besides the low revenue, job cut is also an important reason. It cut some interests.

Though return on assets keep relatively stable over six years. The operating profit and assets are declining these years. Hence compare to past time, Procter & Gamble Company keep their efficiency on using assets to earn profit. Well, in 2015, return on assets got a lowest level in six years. And then return to normal. That is because there is a set of mature operating system in Procter & Gamble Company. Hence even if a new plan is adventurous for the company, people throughout the company can react in due course.

Similar with return on assets, return on equity is also quite stable. As we mentioned on chapter 2, higher growth company has higher return on equity. In household product industry, the latest average return on equity is around 22%, however, Procter & Gamble Company's return on equity are all lower than the average level. We know that a company usually experiences some stages in a circle. Actually, Procter & Gamble Company is at the end of development stage and step in decline stage now. Hence there is a slight decrease from 2011 to 2016. And there are still many new born companies arise in this industry. That is why the average level can keep so high.

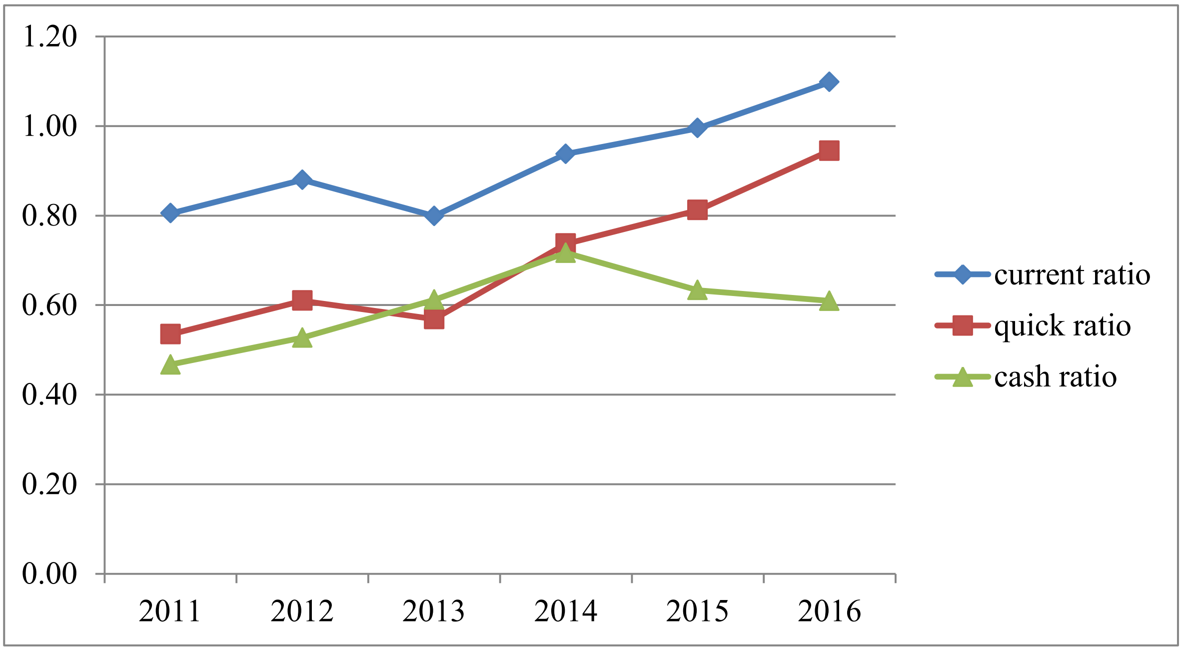
In general, compare with the benchmark in household industry, Procter & Gamble Company still owes quite strong profitability.

4.2.2Liquidity ratio

Table 4.19: Data of liquidity ratio

	2016	2015	2014	2013	2012	2011
current ratio	1.10	1.00	0.94	0.80	0.88	0.80
quick ratio	0.94	0.81	0.74	0.57	0.61	0.53
cash ratio	0.61	0.63	0.72	0.61	0.53	0.47

Figure 4.21: Trend of liquidity ratio from 2011 to 2016



In table 4.19, we know that current ratio increased from 0.8 to 1.1, quick ratio increased from 0.53 to 0.94 and cash ratio increased from 0.47 to 0.61. All these three ratios gained a large jump over six years.

Current ratio represents the ability a company pays off short-term debts and long-term debts and also reflects on a company's healthy condition. However, if the current ratio is lower than 1 means this company may face liquidity problem. Well before 2015, Procter & Gamble Company stated in an unhealthy condition. Because company needs to use their current assets such as cash and cash equivalent to finance their loss brought by some weak brands. And that is why the company decided to cut off some brands that hinder their deeper development.

Though inventories are part of current assets, if we want to sell them immediately, we have to lower the price which may cause some loss. Hence it takes out the inventories of current assets to reflect a company's liquidity. And quick ratio of Procter & Gamble Company shows a constant increasing from 2011 to 2016, which means the company return to healthier condition. Cash ratio is similar with quick.

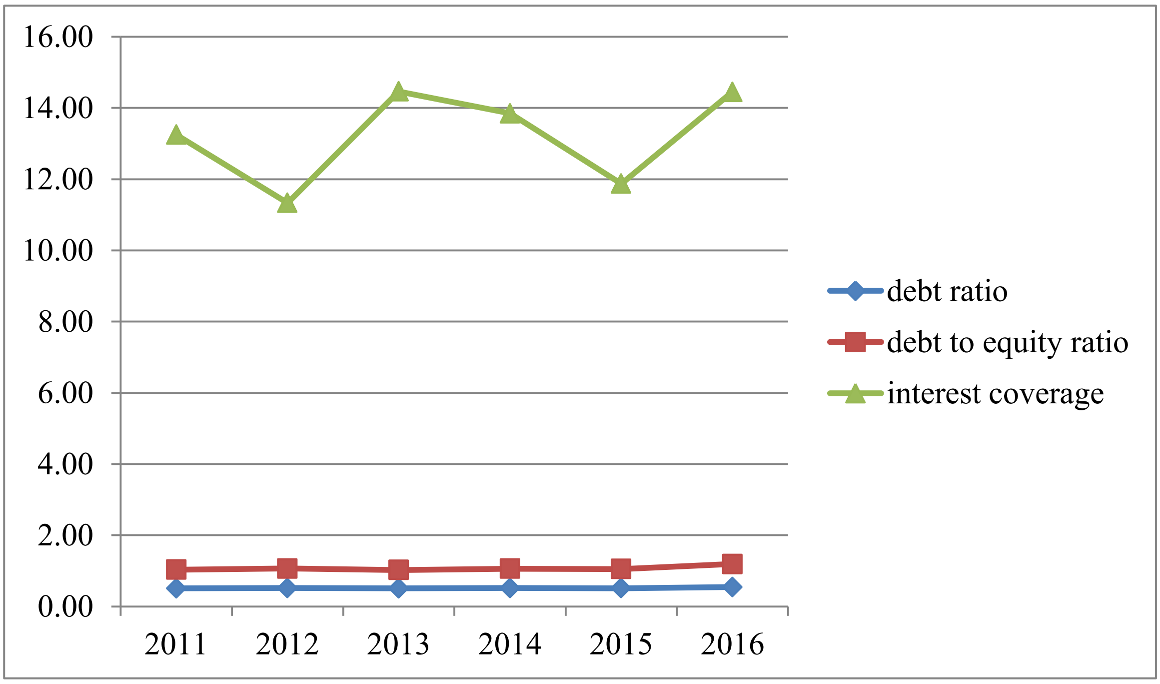
Compare these three ratios we find that the inventory is the key problem that hinder the liquidity of the Procter & Gamble Company. Recently, net sales decreased over four years. It becomes much more difficult to sell their products for new competitors arisen. There is almost no unique new product of Procter & Gamble Company comes to the market nearly ten years from now. We can say that the competitiveness of the company is declining.

4.2.3 Solvency ratio

Table 4.20: Data of solvency ratio

	2016	2015	2014	2013	2012	2011
debt ratio	0.54	0.51	0.51	0.51	0.52	0.51
debt to equity ratio	1.19	1.05	1.06	1.03	1.07	1.03
interest coverage	14.45	11.87	13.85	14.47	11.33	13.25

Figure 4.22: Trend of solvency ratio from 2011 to 2016



In figure 4.22, debt ratio and debt to equity ratio are relatively stable over six years. However, interest coverage is more volatile and got a wave decline.

Debt ratio has a slight increase from 0.51 to 0.54. However, the indicators of this ratio are decreasing. In this case, the company relies more on debt to finance assets. But as we mentioned previously, the higher the ratio, the risky the company is. Because the Procter & Gamble Company performed not as well as we expect, some people may lose confidence about them. Hence financing assets by stocks may decrease. Debt to equity ratio gives more details about debt and equity. In household product industry the newest average book debt ratio is around 51%. And Procter & Gamble Company got higher debt ratio in 2016. In this case we can say that the company increased slightly risk.

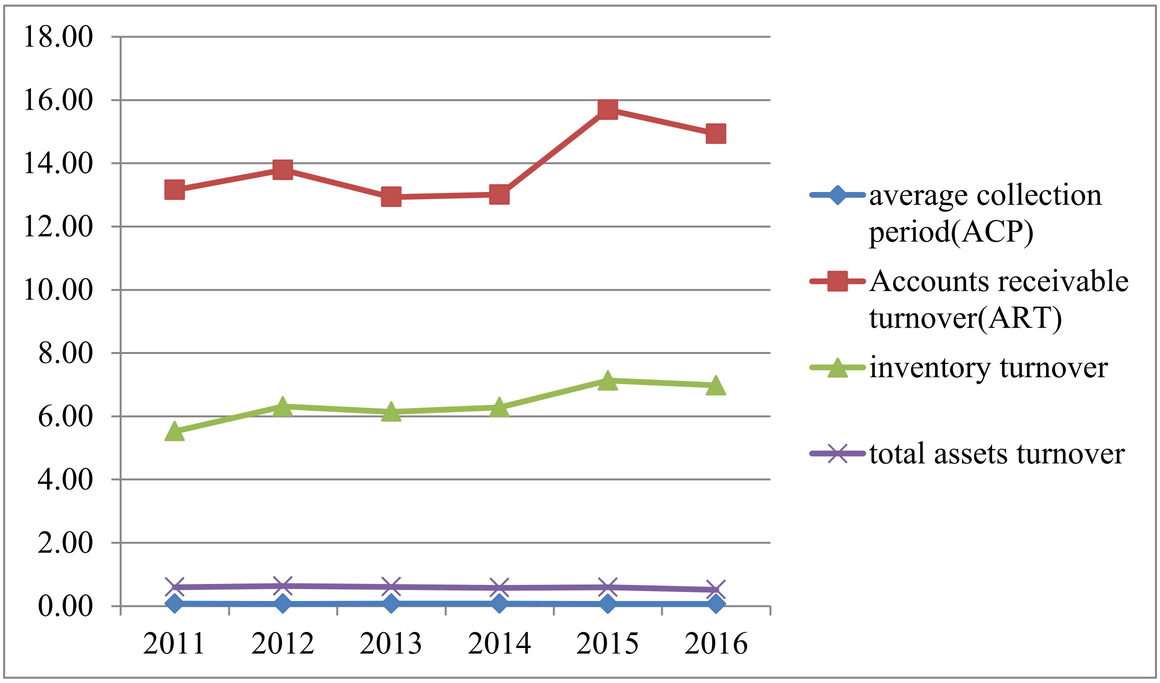
Interest coverage ratio shows difficult or easy degree of a company to pay off the interest paid. The ratio increased a little means Procter & Gamble Company has enough ability to pay off the interest. We know that for large non-financial services companies, if the Interest coverage ratio is higher than 8.5, the company will be rated by AAA/Aaa. Hence, we can judge that Procter & Gamble Company is still a high quality company.

4.2.4 Assets management ratio

Table 4.21: Data of assets management ratio

	2016	2015	2014	2013	2012	2011
average collection period(ACP)	0.07	0.06	0.08	0.08	0.07	0.08
Accounts receivable turnover(ART)	14.93	15.69	13.01	12.93	13.79	13.16
inventory turnover	6.98	7.13	6.28	6.14	6.31	5.52
total assets turnover	0.51	0.59	0.58	0.60	0.63	0.60

Figure 4.23: Trend of assets management ratio from 2011 to 2016



Similarly, average collection period (ACP) and total assets turnover is keep stable, which are around 0.7 and 0.6. Accounts receivable turnover (ART) has a little increase over six years. And inventory turnover gets a slight decrease from 2011 to 2016. Except inventory turnover, all other ratios are positive in this part.

Average collection period is relatively low during these six years. That means the company can get the payment faster. Because Procter & Gamble Company has a long history, they usually build a long-term relationship with dealers. A goodwill and trademark helps a lot in this situation.

Accounts receivable turnover shows Procter & Gamble Company has great efficiency in collecting credit and this trend is increasing. However, it may lose some potential consumers because of its high request of credit extend. Now it is a credit society, not only science and technology are developing, but way of thinking is also changing. If Procter & Gamble Company wants to make a breakthrough they must change their notion to remedy their limitation.

As we can see in table 4.21, inventory turnover increased from 5.52 to 6.98 over six years. The decreased magnitude of average inventories is larger than that of costs of goods sold.

Total assets turnover has a slight decline from 2011 to 2016. That means the efficiency of Procter & Gamble Company using assets to generate revenue is weakening.

To summarize, Procter & Gamble Company still own quite high profitability compared to other companies in the industry. But growth rate is slow down. Now the company faces more transition problems to suit the development of the industry and economy. And to achieve this goal, the company increased more debt relative to the equity. Hence Procter & Gamble Company shows a little bit risky condition.

4.3 Pyramidal decompositions

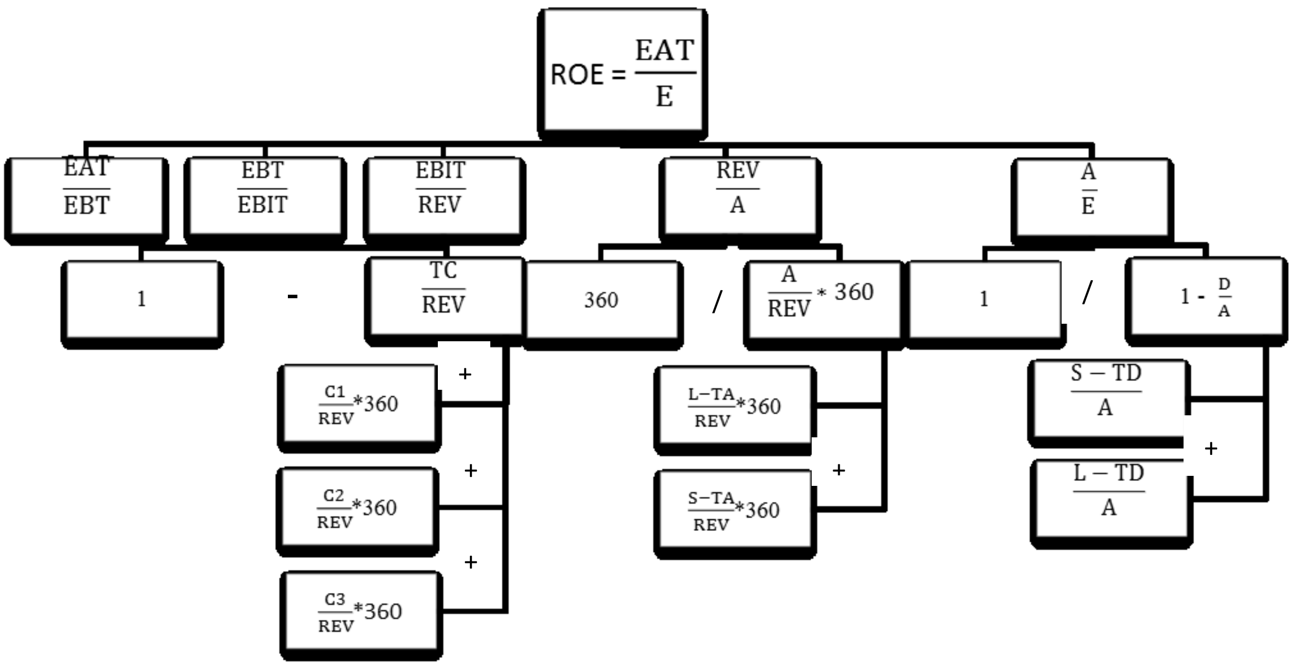
Table 4.22: Data of DuPont analysis

	2016	2015	2014	2013	2012	2011
EAT/E	0.17	0.14	0.17	0.17	0.15	0.18
EAT/EBT	0.75	0.75	0.79	0.77	0.73	0.78
EBT/EBIT	0.99	1.00	0.97	1.02	0.96	0.97
EBIT/REV	0.21	0.15	0.18	0.17	0.16	0.19
REV/A	0.51	0.59	0.58	0.60	0.63	0.60
A/E	2.19	2.05	2.06	2.03	2.07	2.03
TC/REV	-0.86	-0.90	-0.87	-0.88	-0.90	-0.86
A/REV*360	700.91	611.15	625.26	595.66	568.93	603.30
1-D/A	0.46	0.49	0.49	0.49	0.48	0.49
L-TA/REV*360	514.67	471.24	488.23	493.05	474.67	507.49
S-TA/REV*360	186.24	139.91	137.03	102.61	94.26	95.80
L-TD/A	0.30	0.28	0.28	0.29	0.33	0.31
S-TD/A	0.24	0.23	0.23	0.22	0.19	0.20
C1/REV*360	-181.43	-183.48	-184.03	-181.47	-182.37	-177.77
C2/REV*360	-5.13	-4.69	-4.78	-4.28	-5.05	-5.21
C3/REV*360	-18.42	-13.76	-13.77	-14.72	-14.92	-14.79
C4/REV*360	-104.47	-120.88	-109.71	-116.59	-120.45	-113.26

Table 4.23: Data of costs

	2016	2015	2014	2013	2012	2011
C1:Cost of products sold	-32,909	-38,876	-42,460	-42,428	-42,391	-40,768
C2:Interest expenses	-930	-993	-1,104	-1,001	-1,173	-1,194
C3:Tax expenses	-3,342	-2,916	-3,178	-3,441	-3,468	-3,392
C4:Other expenses	-18,949	-25,613	-25,314	-27,258	-27,997	-25,973
Total costs	-110,499	-135,040	-142,351	-146,487	-148,302	-140,876

Figure 4.24: DuPont analysis of ROE



According to the data in table 4.22, the indicator A/E affects most in ROE. And A/E is affected by short-term debt and long-term debt. And according to the data, we find that long-term debt affects more than short-term debt.

The least affect indicator is EBIT/REV so-called operating profit margin. In this indicator total costs affect most. And as we can see in table 4.23, there are four kinds of cost which are cost of products sold, interest expenses, tax expenses and other expenses. And in these four kinds of costs, cost of products sold affects most in total costs.

As we said previously, Procter & Gamble Company has fairly lower return on equity. And that shows the company is not a high growth company. The company has entered a long stable stage and could stay here for a little more time. We know that Procter & Gamble Company generate profit relies more on long-term assets and long-term debts. It is a double-edged sword which may bring a situation that not to advance is to go back.

In general, Procter & Gamble Company generate profit relies more on long-term assets and long-term debts. It is beneficial for the company to maintain a long-term stable. It is in favor of keeping a company’s advantages. However, if the company wants to make some innovation, this may hinder their breakthrough. For Procter & Gamble Company, there is a vast network of benefits. It helps the company last stand but can also impede their development. Now, the company decided to simplify the network hence they cut off amounts of brands. It is the first step to make reformation. However, whether Procter & Gamble Company can make progress remains to be seen.

Chapter 5 Conclusion

From descriptions and analysis of Procter & Gamble Company that we mentioned previously, we can see that Procter & Gamble Company is at the turning point for the development of the company. Squeezed by both the rise of electronic commerce and slump of fast moving consumer goods industry, Procter & Gamble Company is conducting a sweeping reform and innovation with maintaining stability of the overall situation.

As described in chapter 4, from 2011 to 2016 in Procter & Gamble Company total assets decreased from 138,354 to 127,136 and revenue decreased from 82,559 to 65,299. In addition to the influence of the market, inner adjustment of the company also involved. In 2014, Procter & Gamble Company announced to focus on streamlining. Therefore, they decided to drop around 100 brands and concentrate on 10 product categories with about 65 brands, which committed to a much simpler, much less complex brand. And in this way cut the cost of management and operations. Usually, we believe that a company should be too big to fall. Hence, we enlarge our scale and increase our brands. However, too many brands may bring trouble to us. But we have to say that own too much brands let Procter & Gamble Company loose some advantages in their high-end brands. Therefore, to get rid of this disadvantage, the company believes less is more and drops off some brands decisively.

At present, we can see from financial statements that as the result of “slim plan” both net sales and net earnings got slight decline. And total costs also decreased. That means “slim plan” is effective in some degree.

Although net sales decreased, according to the ratios that we calculated in chapter 4 Procter & Gamble Company still has quite stable ability to gain profit. And it is in a healthy financial condition. Because the company does not need to use their current assets such as cash and cash equivalent to finance their loss brought by some weak brands. And that is why the company decided to cut off some brands that hinder their deeper development.

In this case, sometimes an absolute change in number does not matter show a company is weakening. As the sign goes that confront a person with the danger of death and he will fight to live. Company chose to cut off some brands give them more chance to strengthen other brands and change crisis into opportunity.

Certainly, a big change in a company needs solid backing. In pyramidal decompositions we know that total liability is relatively stable and long-term debt has more effect on company. It is beneficial for the company to maintain a long-term stable. Only when the company keeps stable inner system, can they conduct a great change.

We have to admit that Procter & Gamble Company is still the leader of consumer goods market even if they are confronting troubles. Whether the company can get out of the dilemma is needed to be seen yet.

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List of Abbreviation

A	Asset
ACP	Average collection period
ART	Account receivable turnover
C	Cost
D	Debt
E	Equity
EAT	Earnings after tax
EBT	Earnings before tax
EBIT	Earnings before interest and tax
IT	Inventory turnover
L-TA	Long-term asset
L-TD	Long-term debt
NPM	Net profit margin
OP	Operating profit
OPM	Operating profit margin
REV	Revenue
ROA	Return on assets
ROE	Return on equity
S-TA	Short-term asset
S-TD	Short-term debt
TAT	Total assets turnover
TC	Total costs

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Ostrava dated 29/4/2017

王瑞彤 RUITONG WANG

Student's name and surname

List of Annexes

Annexes 1 Assets of Procter & Gamble Company 2011 -2016

Procter & Gamble Co., Consolidated Statement of Financial Position, Assets						
USD $ in millions						
	Jun 30, 2016	**Jun 30, 2015**	**Jun 30, 2014**	**Jun 30, 2013**	**Jun 30, 2012**	**Jun 30, 2011**
Cash and cash equivalents	7,102	6,845	8,558	5,947	4,436	2,768
Available-for-sale investment securities	6,246	4,767	2,128	–	–	–
Accounts receivable	4,373	4,861	6,386	6,508	6,068	6,275
Inventories	4,716	5,454	6,759	6,909	6,721	7,379
Deferred income taxes	1,507	1,356	1,092	948	1,001	1,140
Prepaid expenses and other current assets	2,653	2,853	3,845	3,678	3,684	4,408
Current assets held for sale	7,185	3,510	2,849	–	–	–
Current assets	**33,782**	**29,646**	**31,617**	**23,990**	**21,910**	**21,970**
Property, plant and equipment, net	19,385	20,268	22,304	21,666	20,377	21,293
Goodwill	44,350	47,316	53,704	55,188	53,773	57,562
Trademarks and other intangible assets, net	24,527	26,829	30,843	31,572	30,988	32,620
Other noncurrent assets	5,092	5,436	5,798	6,847	5,196	4,909
Noncurrent assets	**93,354**	**99,849**	**112,649**	**115,273**	**110,334**	**116,384**
Total assets	**127,136**	**129,495**	**144,266**	**139,263**	**132,244**	**138,354**
Source: Procter & Gamble Co., Annual Reports						
Source: www.stock-analysis-on.net						
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Annexes 2 Liabilities and shareholders' equity of Procter & Gamble Company 2011 -2016 (part 1)

Procter & Gamble Co., Consolidated Statement of Financial Position, Liabilities and Stockholders' Equity						
USD $ in millions						
	Jun 30, 2016	**Jun 30, 2015**	**Jun 30, 2014**	**Jun 30, 2013**	**Jun 30, 2012**	**Jun 30, 2011**
Accounts payable	9,325	8,257	8,461	8,777	7,920	8,022
Marketing and promotion	2,820	2,901	3,290	3,122	2,880	3,058
Compensation expenses	1,457	1,455	1,647	1,665	1,660	1,753
Restructuring reserves	315	389	381	323	343	151
Taxes payable	397	845	711	817	414	786
Legal and environmental	158	208	399	374	264	885
Other	2,302	2,527	2,571	2,527	2,728	2,657
Accrued and other liabilities	**7,449**	**8,325**	**8,999**	**8,828**	**8,289**	**9,290**
Current liabilities held for sale	2,343	1,187	660	–	–	–
Debt due within one year	11,653	12,021	15,606	12,432	8,698	9,981
Current liabilities	**30,770**	**29,790**	**33,726**	**30,037**	**24,907**	**27,293**
Long-term debt, excluding due within one year	18,945	18,329	19,811	19,111	21,080	22,033
Deferred income taxes	9,113	9,531	10,218	10,827	10,132	11,070
Pension benefits	6,761	5,583	5,984	6,027	5,684	4,388
Other postretirement benefits	1,808	1,414	1,906	1,713	3,270	1,887
Uncertain tax positions	952	1,016	1,843	2,002	2,245	2,326
Other	804	782	802	837	891	1,356
Other noncurrent liabilities	**10,325**	**8,795**	**10,535**	**10,579**	**12,090**	**9,957**
Noncurrent liabilities	**38,383**	**36,655**	**40,564**	**40,517**	**43,302**	**43,060**
Total liabilities	**69,153**	**66,445**	**74,290**	**70,554**	**68,209**	**70,353**
Convertible Class A preferred stock, stated value $1 per share	1,038	1,077	1,111	1,137	1,195	1,234
Non-Voting Class B preferred stock, stated value $1 per share	–	–	–	–	–	–
Common stock, stated value $1 per share	4,009	4,009	4,009	4,009	4,008	4,008
Additional paid-in capital	63,714	63,852	63,911	63,538	63,181	62,405
Reserve for ESOP debt retirement	-1,290	-1,320	-1,340	-1,352	-1,357	-1,357
Accumulated other comprehensive loss	-15,907	-12,780	-7,662	-7,499	-9,333	-2,054
Treasury stock, at cost	-82,176	-77,226	-75,805	-71,966	-69,604	-67,278
Retained earnings	87,953	84,807	84,990	80,197	75,349	70,682

Annexes 2 Liabilities and shareholders' equity of Procter & Gamble Company 2011 -2016 (part 2)

Shareholders' equity attributable to Procter & Gamble	**57,341**	**62,419**	**69,214**	**68,064**	**63,439**	**67,640**
Noncontrolling interest	642	631	762	645	596	361
Total shareholders' equity	**57,983**	**63,050**	**69,976**	**68,709**	**64,035**	**68,001**
Total liabilities and shareholders' equity	**127,136**	**129,495**	**144,266**	**139,263**	**132,244**	**138,354**
Source: Procter & Gamble Co., Annual Reports						
Source: www.stock-analysis-on.net						
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Annexes 3 Income statement of Procter & Gamble Company 2011 -2016 (part 1)

Procter & Gamble Co., Consolidated Income Statement						
USD $ in millions						
12 months ended	**Jun 30, 2016**	**Jun 30, 2015**	**Jun 30, 2014**	**Jun 30, 2013**	**Jun 30, 2012**	**Jun 30, 2011**
Net sales	65,299	76,279	83,062	84,167	83,680	82,559
Cost of products sold	-32,909	-38,876	-42,460	-42,428	-42,391	-40,768
Gross profit	**32,390**	**37,403**	**40,602**	**41,739**	**41,289**	**41,791**
Selling, general and administrative expense	-18,949	-23,585	-25,314	-26,950	-26,421	-25,973
Goodwill and indefinite-lived intangible asset impairment charges	–	–	–	-308	-1,576	–
Venezuela deconsolidation charge	–	-2,028	–	–	–	–
Operating income	**13,441**	**11,790**	**15,288**	**14,481**	**13,292**	**15,818**
Interest expense	-579	-626	-709	-667	-769	-831
Interest income	182	151	100	87	77	62
Other non-operating income, net	325	531	206	942	185	270

Annexes 3 Income statement of Procter & Gamble Company 2011 -2016 (part 2)

Earnings from continuing operations before income taxes	**13,369**	**11,846**	**14,885**	**14,843**	**12,785**	**15,319**
Income taxes on continuing operations	-3,342	-2,916	-3,178	-3,441	-3,468	-3,392
Net earnings from continuing operations	**10,027**	**8,930**	**11,707**	**11,402**	**9,317**	**11,927**
Net earnings (loss) from discontinued operations	577	-1,786	78	–	1,587	–
Net earnings	**10,604**	**7,144**	**11,785**	**11,402**	**10,904**	**11,927**
Net earnings attributable to noncontrolling interests	-96	-108	-142	-90	-148	-130
Net earnings attributable to Procter & Gamble	**10,508**	**7,036**	**11,643**	**11,312**	**10,756**	**11,797**
Preferred dividends, net of tax	-255	-259	-253	-244	-256	-233
Net earnings attributable to Procter & Gamble available to Common Shareholders	**10,253**	**6,777**	**11,390**	**11,068**	**10,500**	**11,564**
Source: Procter & Gamble Co., Annual Reports						
Source: www.stock-analysis-on.net						

Annexes 4 Cash flow statement of Procter & Gamble Company 2011 -2016 (part 1)

Procter & Gamble Co., Consolidated Statement of Cash Flows						
USD $ in millions						
12 months ended	**Jun 30, 2016**	**Jun 30, 2015**	**Jun 30, 2014**	**Jun 30, 2013**	**Jun 30, 2012**	**Jun 30, 2011**
Net earnings	10,604	7,144	11,785	11,402	10,904	11,927
Depreciation and amortization	3,078	3,134	3,141	2,982	3,204	2,838
Share-based compensation expense	335	337	360	346	377	414
Deferred income taxes	-815	-803	-44	-307	-65	128
Gain on sale of businesses	-41	-766	-154	-916	-2,106	-203
Venezuela deconsolidation charge	–	2,028	–	–	–	–
Goodwill and intangible asset impairment charges	450	2,174	–	308	1,576	–
Change in accounts receivable	35	349	87	-415	-427	-426
Change in inventories	116	313	8	-225	77	-501
Change in accounts payable, accrued and other liabilities	1,285	928	1	1,253	-22	358
Change in other operating assets and liabilities	204	-976	-1,557	68	-444	-1,221
Change in operating assets and liabilities	**1,640**	**614**	**-1,461**	**681**	**-816**	**-1,790**
Other	184	746	331	377	210	16
Operating activities	**15,435**	**14,608**	**13,958**	**14,873**	**13,284**	**13,330**
Capital expenditures	-3,314	-3,736	-3,848	-4,008	-3,964	-3,306
Proceeds from asset sales	432	4,497	570	584	2,893	225
Cash related to deconsolidated Venezuela operations	–	-908	–	–	–	–
Acquisitions, net of cash acquired	-186	-137	-24	-1,145	-134	-474
Purchases of short-term investments	-2,815	-3,647	-568	-1,605	–	–
Proceeds from sales of short-term investments	1,354	1,203	24	–	–	–
Cash transferred in Batteries divestiture	-143	–	–	–	–	–

Annexes 4 Cash flow statement of Procter & Gamble Company 2011 -2016 (part 2)

Restricted cash related to Beauty Brands divestiture	-996	–	–	–	–	–
Change in other investments	93	-163	-261	-121	112	73
Investing activities	**-5,575**	**-2,891**	**-4,107**	**-6,295**	**-1,093**	**-3,482**
Dividends to shareholders	-7,436	-7,287	-6,911	-6,519	-6,139	-5,767
Change in short-term debt	-418	-2,580	3,304	3,406	-3,412	151
Additions to long-term debt	3,916	2,138	4,334	2,331	3,985	1,536
Reductions of long-term debt	-2,213	-3,512	-4,095	-3,752	-2,549	-206
Treasury stock purchases	-4,004	-4,604	-6,005	-5,986	-4,024	-7,039
Treasury stock from cash infused in Batteries divestiture	-1,730	–	–	–	–	–
Impact of stock options and other	2,672	2,826	2,094	3,449	1,729	1,203
Financing activities	**-9,213**	**-13,019**	**-7,279**	**-7,071**	**-10,410**	**-10,122**
Effect of exchange rate changes on cash and cash equivalents	-381	-411	39	4	-113	163
Change in cash and cash equivalents	**266**	**-1,713**	**2,611**	**1,511**	**1,668**	**-111**
Cash and cash equivalents, beginning of year	6,836	8,558	5,947	4,436	2,768	2,879
Cash and cash equivalents, end of year	**7,102**	**6,845**	**8,558**	**5,947**	**4,436**	**2,768**
Source: Procter & Gamble Co., Annual Reports						
Source: www.stock-analysis-on.net						
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Annexes 5 Ratios calculation of Procter & Gamble Company 2011 -2016

	2016	2015	2014	2013	2012	2011
Net sales	65299	76279	83062	84167	83680	82559
Operating income	13441	11790	15288	14481	13292	15818
Net earnings from continuing operations	10027	8930	11707	11402	9317	11927
Cost of products sold	32909	38876	42460	42428	42391	40768
Cash and cash equivalents	7102	6845	8558	5947	4436	2768
Accounts receivable	4373	4861	6386	6508	6068	6275
Current assets	33782	29646	31617	23990	21910	21970
Inventories	4716	5454	6759	6909	6721	7379
Debt due within one year	11653	12021	15606	12432	8698	9981
Current liabilities	30770	29790	33726	30037	24907	27293
Interest expense	930	993	1104	1001	1173	1194
Total assets	127136	129495	144266	139263	132244	138354
Total liabilities	69153	66445	74290	70554	68209	70353
Total shareholders' equity	57983	63050	69976	68709	64035	68001
operating profit margin	0.21	0.15	0.18	0.17	0.16	0.19
net profit margin	0.15	0.12	0.14	0.14	0.11	0.14
return on assets	0.11	0.09	0.11	0.10	0.10	0.11
return on equity	0.17	0.14	0.17	0.17	0.15	0.18
current ratio	1.10	1.00	0.94	0.80	0.88	0.80
quick ratio	0.94	0.81	0.74	0.57	0.61	0.53
cash ratio	0.61	0.63	0.72	0.61	0.53	0.47
debt ratio	0.54	0.51	0.51	0.51	0.52	0.51
debt to equity ratio	1.19	1.05	1.06	1.03	1.07	1.03
interest coverage	14.45	11.87	13.85	14.47	11.33	13.25
average collection period(ACP)	0.07	0.06	0.08	0.08	0.07	0.08
Accounts receivable turnover(ART)	14.93	15.69	13.01	12.93	13.79	13.16
inventory turnover	6.98	7.13	6.28	6.14	6.31	5.52
total assets turnover	0.51	0.59	0.58	0.60	0.63	0.60